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POLITICAL ECONOMY

FOR

BUSINESS PEOPLE.

BY

ROBERT JAMIESON.

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1880.

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PREFACE.

THE First Part of this book has been written for the sake of the Second, in which the main purpose of the work lies. That purpose is to submit an alternative system to the one maintained by Economists as to the relationship between money and prices. Both systems have wide ramifications, and each forms of necessity a more or less complete theory affecting such matters as the continuous advance in prices, the depreciation of silver, the effect of the gold discoveries, the monetary affairs of India, and many other kindred topics. In submitting this alternative scheme, I seek to find support in the experience and intelligence of business people, with whose point of view I am familiar through occupation and daily intercourse.

It is obvious that the greater number of books on Political Economy have been written for students rather than for busily occupied men, and that the class of persons with whom I come into contact have had reason for looking upon the science as a mere elaboration of abstract ideas. In the hope of being able to put forward a statement which may be found

simple and readable, I have adopted a more direct and unconventional method than is usual in treating of the subjects included in the First Part of the work. This is my excuse to those readers of Mill and Fawcett who may find the slight novelties I have introduced a little strange at first sight. For the leading points I have submitted in the Second Part no excuse is offered; they must stand on their merits, and for them I only crave the indulgence of a patient consideration.

It is to be expected that many incomplete and obscure statements have escaped from my pen, and even perhaps some inaccuracies, notwithstanding every care taken to avoid them. To those who may point out any such, I offer my thanks beforehand. Authorities have been quoted sparingly on account of the popular character of the work, as the aim was rather to give an intelligible statement than to supply a book of reference.

ROBERT JAMIESON.

July, 1880.

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POLITICAL ECONOMY.

PART FIRST.

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WHOEVER acquires even a slight acquaintanceship with Political Economy soon learns that it does not throw much light on Politics in the ordinary sense of that term, nor does it teach those who require to learn it the art of making money. When the name of the science was adopted, the word *Political* referred to the body politic, or commonwealth; and the word *Economy* meant methodical arrangements, or, in its original sense, household management. The name has never been considered a very happy one, and there are still frequent attempts to change it, but it has become familiar and engrained in the language; besides, no substitute has ever been suggested that gave complete satisfaction.

Though our subject is commonly called a science, and its rules are termed laws, these names are applied partly for convenience sake, and are scarcely

justified by the conditional and qualified character inherent in most of its principles.

Political Economy is to be regarded as a generalisation of many complicated facts, the results being drawn up in the form of axioms, which are to be looked upon as tendencies rather than as laws; but it differs from a mere classification of statistics in this, that it seeks above all things to trace the relationship of cause and effect in the matters with which it deals. The movements of trade and commerce are so intricate, that though it is easy to accumulate totals of entries and masses of figures, it is by no means so easy to trace at first sight, and through many stages, the causes by which certain phenomena are produced.

It has been said of Political Economy that it is a dismal science, and a system based on the lowest selfishness. But these are the mere exaggerations of persons who have got into an antagonistic attitude, as was very common in former years, when the subject was injudiciously handled and frequently misunderstood. There is nothing dismal about a description of wealth, and the circumstances under which it is most abundantly produced, or saved, or enjoyed. Nor is there anything peculiarly selfish in the deduction, that when people buy and sell they consult their own interests to the best of their ability. But it happened, about eighty years ago, that a well-meaning and thoughtful clergyman, named Malthus, published an essay, in which he showed that the population of any country tended to increase much more rapidly than its production of food. Conse-

quently, he argued, all nations must in the end arrive at a condition in which many of their number live on the borders of starvation, unless, as in former ages, famine, pestilence, and sword come to thin their ranks. Many years afterwards, he republished his essay in a modified form, and introduced a corrective element, by allowing that moral and prudential restraint may possibly keep the numbers of a nation within the limits of its food supplies; but in the meantime the cry was raised, and is only dying out now, that Political Economy is a system of harsh and selfish principles.

When Adam Smith, the founder of the science, published his great work which has served as a basis for all the speculations that have been made upon the subject since, he called it "An Enquiry into the Nature and Causes of the Wealth of Nations." At that time—say a hundred years ago—the very nature of wealth had to be explained, as most people supposed it consisted chiefly in silver and gold; and some erroneous but very prevalent ideas regarding the gain or loss of importing these metals had to be discussed by him as a most important part of his work. These ideas are no longer in force, and do not now stand in need of being cleared away, but we must still give some simple definition of what we mean by the term *wealth*.

Again, it has been usual, in considering the wealth of nations, to concentrate the attention on its transfer within, or to and from, single nations, as if in every case it were "one against the world." But the former isolation of countries has been largely broken

up of late years, by the amazing development of inter-communication, and the increasing tendency to work upon special industries. Some nations, such as England, are now dependent on others for the chief supply of their daily food, while their population is busy at the manufacture of clothing for the rest of the world. The vital and deeply-interwoven interests of all the people on the face of the earth make it desirable to consider the wealth of nations as a whole, quite as much as the wealth of each nation apart. The movements between distinct kingdoms are to be treated, as far as possible, as if they were between different provinces or cities of the same realm. They may be foolishly jealous of each other's rivalry or pre-eminence, and even disposed to exact duties and raise barriers at various points of distribution; but they are united beyond the possibility of separation in contributing to each other's wants and requirements. From this standpoint we shall be better able to comprehend many of the questions of Political Economy; and it should never be forgotten that, in the struggle for wealth, as much liberty and freedom of action ought to be given to a rival nation as to a rival trader. Further, that every addition to the wealth, or the facilities for acquiring wealth, which may be secured by one State tends to benefit all; and in the general contribution to the world's wants, we on this planet are all—to use the familiar expression—in the same boat, and must sink or swim together.

The task we have on hand is therefore to give a generalised analysis and description of wealth in its

nature and sources, as also of the agents and co-efficients that are serviceable in its production and in the distribution of the results. We shall consider various influences that stimulate or restrain that production, as the case may be, and take note of the circumstances that accompany its saving and its consumption. These will occupy the first part of the book, and the second will be devoted to a similar analysis and description of the methods, agents, and facilities used in the exchange of wealth.

As a preliminary duty, we have to define the meaning and explain the nature of the term "wealth," which is of very wide application—wider indeed than we can embrace in our enquiries. People speak of a wealth of sunshine, a wealth of beauty, a wealth of ideas; there is also inaccessible wealth and unappropriated wealth; but all these are left out of view, and the simple definition of our subject is, *whatever can be bought and sold.* Further definitions have been given, more or less analytic, of the nature of wealth, such as that it be transferable, limited in supply, and possessing some utility; but on these we need not dwell.

In speaking of whatever can be bought and sold, we mean to include the skill of an artisan, and the muscular power of a navvy, as well as the knowledge of a lawyer or an engineer. In the same manner, we include the services of a message boy or a butler, a singer or an actor. All these are wealth, and so are slaves, not merely in their services but in their persons, wherever they are found; but the high moral or physical qualities of certain nations, or

certain sections of a community, are no more to be called wealth in our sense of the term than the bracing air or joyous sunshine, except in so far as they can be appropriated and turned to account—in other words, bought and sold.

Title-deeds, mortgages, bills of lading are wealth; not in the unnatural sense that their value is in the bits of paper, but that the solid property to which they establish a claim is as much in the possession of those persons who own the documents as such property possibly can be. If such claims are not securely backed up by law and authority, then some different mode of possession has to be adopted; but claims for property which rest simply on a piece of paper, are usually given and taken only where there is effective government and a vigorous maintenance of law.

In the same way, an I O U, or a promissory note, is wealth, inasmuch as it transfers a claim on the property of the person who signs, and lodges it in the possessor of the document. A bank note, a cheque, or a bill of exchange all come under the same category, and alike submit themselves to our definition of things that can be bought and sold.

Gold and silver are wealth, but not in any exceptional degree. They form but a very small portion of the wealth of England, though they are a considerably greater part of the riches of India. The number and value of other articles of wealth exceed the quantities of the precious metals to an incalculable extent. At one time, and especially during the period extending from the discovery of the

American mines till the beginning of the present century, gold and silver held a more important position than they do now. They were in reality the most convenient and serviceable form in which wealth could be securely preserved. Property in land, houses, and ships was the only form of investment that gave any return, apart from the capital used in business; but then, as now, these forms of property were troublesome in the transfer. Again, a small amount of wealth was usually stored away in furniture and clothing, and a year's supply of ordinary provisions might at certain times be laid aside; but the idea of accumulated wealth was associated with coined money. This was the true origin of the so-called mercantile theory, which Adam Smith contended against. To export silver and gold in exchange for spices and fine raiment seemed a grievous squandering of the resources of the country. It was regarded as a proof that we were not getting rid of our manufactures and our produce to such an extent as would pay for our purchases, and a payment in cash was regarded as not only showing a balance of trade against the country, but as a mode of exhausting its means and hampering its internal traffic. No doubt the people were grievously in want of an extended currency in those days, and it must have produced inconvenience when large quantities of it were sent abroad; but as these cash payments were never given save for valuable articles, the real wealth of the country was rather increased than diminished by the process.

In modern times, and in highly organised com-

mercial countries, gold and silver have become discredited as modes of storing up the accumulations of wealth. They produce no return in that form, and are more and more set aside to be used in limited quantities as a convenience in business transactions.

The great source of wealth is Nature, and her treasures are found in the earth, the sea, and the air. All that we possess is drawn from her bounteous stores: the food we eat, the raiment we put on, the ornaments that adorn our houses or persons, the conveyances that minister to our ease—all that serves for man's life and enjoyment is derived from Nature's materials, shaped and modified to suit our varied wants. The extent of a nation's wealth is simply the extent to which Nature's wealth is appropriated and applied. Man is not a creator of these things; all he can do is to possess himself of that which is placed to his hand, and modify it by conveyance, readjustment, and fresh arrangements.

Having thus considered the nature and primal source of wealth, not in the fullest and widest sense of the term, but in the sense that is natural to an inquiry of this kind, we must now turn our attention to the circumstances attending its production, conveyance, and distribution, and these may be treated as one continuous process.

The first thing that strikes us in this stage of our enquiry is, that many articles of wealth do not admit of any further production at all, such as ancient books, ornaments, and works of art, both small and great—everything, in short, which derives its value from belonging to the past. Again, there are

some articles which can only be slowly and slightly increased, such as the finest productions in art and science of our own times. The qualities of mind which are required for the production of such works are very rare, and incapable of being elicited whenever they are wanted. Then there are some very valuable articles, such as precious stones, silver, and gold, which can be produced for a time; but being drawn from Nature's inorganic, and not from her organic or perennial resources, the store of them may become exhausted in course of time.

Such appeared to be the actual state of the supply of metal for coining before the discovery of the American mines in the sixteenth century; and it is probable that a dearth of gold for monetary purposes would have been again felt over the world before the present date, but for the fortunate discovery of those extensive mines which are now being worked in California, Australia, and South Africa. All such cases of restricted production may, however, be treated as exceptional, and we shall proceed with our enquiry, on the understanding that the great bulk of serviceable wealth is derived from continuous and unremitting production, the success of which is more or less proportionate to the extent and fitness of the agents applied thereunto.

It is usual to speak of certain requisites that are necessary to the producing of wealth, and to describe them under the symbolic terms, *land*, *labour*, and *capital*. But it might be strictly said that the only absolute requisites are Nature's supplies and the effort of appropriation. This is the simple truth,

when we refer to those rich and fertile spots of earth where untutored humanity finds its wants but few and Nature lavish. For the sake of simplicity, we shall take leave to apply a more direct and less conventional phraseology than that in common use, and while giving the first place to Nature's gifts, shall speak of these and the various appliances which are brought to bear upon them as co-efficients and auxiliaries, of which the following is a brief enumeration.

First, there are the stores and vital energies of Nature—that is to say, the inorganic materials, and the power of growth in animal and vegetable life. This is the great mysterious manufactory of the world, whence an infinite supply of riches is poured into the lap of mankind, season after season, as the months roll on.

Second, there are the motive forces of Nature, the mighty agencies which modify and adapt the materials for man's use by labour-saving power. The greatest of these is steam; but there is also water-power flowing from height to hollow, and wind-power pressing on the outspread sails of ships and wind-mills; there is heat, light, electricity, gravitation—all the forces of Nature yoked to the harvest-waggon of national wealth and productiveness. These important co-efficients, which we call the first and second, are usually described by the term *land.*

Third, there are the labour-saving contrivances, such as railways, roads, and ships for conveyance; engines and machinery for power; and looms or spindles for manipulation.

Fourth, there is the skill that devises these appliances, and the labour that ministers to them; the labour also which performs those drudgeries which are too incidental or multifarious to be accomplished by machinery; and to them may be added the services of the lower animals. These, our third and fourth co-efficients, are usually indicated by the term *labour*.

Fifth, there is the saved and accumulated wealth, devoted chiefly to the construction of buildings, plant, and machinery, and in a lesser degree to the maintenance of labour and other necessary purposes during the process of production. This is *capital*.

There are also three subordinate or passive co-efficients, which we may term auxiliaries. These are—

First, the infinite division and sub-division of labour, not only by simultaneous co-operation during one stage of progress, but in a more important way—by consecutive processes, and by the passing on of materials from stage to stage, and from capitalist to capitalist. This is the source of many complicated results.

Second, the protection to property, both individual and national, which is essential to the possession as well as the production of wealth. Buying and selling would be futile, if there were no laws to regulate individual rights, or no powers to enforce them.

Third, the training and education which are absolutely necessary to the effectiveness of human labour.

Such are the various agencies which of necessity are combined together for a free and vigorous produc-

tion of wealth in every community. If any of them be wanting, the others are rendered comparatively unserviceable. The three last named have not usually been regarded as important agencies. The influence of government and of education have been treated as things apart, and the division of labour has been regarded as merely a profitable mode of applying it. But the present method of treating them seems the more appropriate and simple.

In dwelling upon the characteristics of the active co-efficients of production, we shall seek for a general idea of the nature of each, observing how and under what circumstances they best serve their purpose, noting also the class of persons into whose hands their possession and their profitable return tends to fall, as well as the prospects of their growth or diminution.

The three auxiliaries, or passive co-efficients—namely, division of labour, effective government, and proper training—stand apart from the other five in this respect, that they cannot be individually appropriated, and their returns allotted, in the same sense as the others. There is no proprietorship in the division of labour. It is maintained without expense, and its benefits are as general as those of good government. There is a limited proprietorship in education, and an individual benefit in the first instance to the body of teachers, but its greatest results are scattered over the community. In government and educational training, we have not to consider the distribution of returns, but the allotment of the cost.

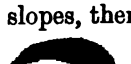
CHAPTER II.

First co-efficient, namely, the stores of material and vital energies of Nature—These found to be differently disposed in various countries—Modes of their appropriation by communes and individuals—Ricardo's theory of Rent: its incompleteness—Varieties of Land Tenure—General principles applicable to them—Nature's supplies in Water and Air—Stores of Minerals—Difference between the precious metals and all other kinds of ore—Exhaustion of mineral supplies.

WITH these preliminary remarks, we proceed now to discuss the first and greatest of those co-efficients which work together in supplying man's wants and enjoyments on earth. In considering the general characteristics of Nature's vital energies and stores of material, we at once meet the important fact, that these are not the same in all countries, but rather that they are so scattered as to give nearly every separate country a separate benefit. China has its tea, Jamaica its sugar, Virginia its tobacco, England its iron, and France its wine; everywhere there is a special gift bestowed, as if to compel all the nations of the world to become as one in the bonds of commerce. By degrees the wants of every community have outgrown the limits of their frontier. The soil of the earth is becoming as common and mutually serviceable as the wide ocean; and if there still prevail those narrow mistaken ideas that would seek to isolate nations in their pride as well as in

their products, familiarity with undeniable facts, and the pressure of ultimate necessities, must eventually demonstrate the folly of such attempts.

The next point to which we draw attention is, that the surface of the earth, in which these natural benefits lie scattered, tends to become appropriated as the human race spreads over it, sometimes by communes or tribes, sometimes by individuals. Communal property in the soil appears to have been its most common form in the early stages of history, and still survives in a limited degree. But, leaving that question aside, as no longer of importance for our purpose, we shall trace the process of individual possession, and the modes of sharing the produce. The most convenient or fertile spots are taken first, and, as the soil becomes generally occupied, some have more and some have less than they can use. A piece of fertile ground is the same as an implement or tool to produce wealth. Its quality varies, however, in that respect, and so of course must its value, to anyone who gets the loan or the use of it for that purpose. If the produce be shared in such a case between the owner and the user, the latter will only get a portion suitable to his labour, while the former will get all the rest, as being the portion derived from the greater or less fertility of the soil. This portion which goes to the owner is called *rent*. If we could imagine the whole land of a country to be spread out in slopes, so that the best land for hiring should be at the bottom and the worst land at the top of these slopes, then the height to which cultivation rises on



them would show the amount of demand that existed for food. There would be a *margin of cultivation* showing itself like a snow-line, which would rise or fall as the population to be fed increased or diminished. When war or famine passes over a country, land frequently goes out of cultivation, and that would be indicated by a depression of the line. But population tends constantly to increase and press upon the available supplies of food. As the margin of cultivation rises, more labour is required on the higher and poorer soil, and its produce must be sold at an advanced price. But if this dearest produce is actually wanted, then all the produce of the richer soil below will bring the high price also, and that soil will become more and more valuable for hiring. The land at the margin of cultivation is supposed to be worth no rent at all; but the difference between the produce of that poorest land and the produce of the richest land, after paying for the labour and expense of their cultivation, will represent the actual hiring value of the latter as an implement—in other words, its rent. Let us carefully observe here that it is not the higher rent which raises the value of the produce, but the higher value of the produce, caused by increasing population, which advances the rent.

Such is the famous theory of Ricardo, but it is too simple in its conditions, and too unmindful of modern complications, to serve as more than a skeleton theory. Rent is, abstractly, the mere hiring value, the surplus produce after paying the farmer for his trouble and expense; that is the only way of stating it in a

general form; but it does not, in one case out of ten, rest on the simple basis given above. It is complicated by the varieties of tenure, by the improvements and expenditure of the landlord or of the tenant, by the influence of custom, by the extension of railways and of steam communication; in short, by a thousand local circumstances. The idea of a population outgrowing the food supply of its soil to the extent that England has now done never found a place in Ricardo's theory, unless it were in the inference that such a population would inevitably have to be reduced by famine, pestilence, or sword.

We have thus seen how the surface of the earth, in which are scattered the stores and energies of Nature, tends to become appropriated, and let out on hire. In some countries, such as England, the appropriation has been in large masses, which are let out in small portions. In other countries, circumstances have been less favourable to the accumulation of property in land, and sometimes—as in France, for example—the holdings are so small that the owner does not let it out, but cultivates it himself. The conditions under which the holding or the hiring of the soil is regulated, form perhaps the most important element in deciding its efficiency as a producer of wealth, and we shall give a brief sketch of them under the name of land tenures. Anything like a full description is impossible here, as their forms are innumerable, and we shall merely generalise them under their twofold aspects—first, as regards the landlord; second, as regards the tenant.

AS REGARDS THE LANDLORD—

1st. He may be paid by a fixed and perpetual rent, as is the case in India and many countries at the present time.

2nd. He may be paid by a rent fixed for a time, as is common on leasehold farms in England and Scotland.

3rd. He may be paid by a rent which he can raise or lower at pleasure, subject to use or custom, as is the case in Ireland, and among tenants-at-will in England.

4th. He may be paid by a share of the produce, as is the case in Italy.

5th. He may be prevented from letting the land under free and suitable conditions, on account of the restrictions of entails and settlements; a condition which is almost peculiar to the United Kingdom.

AS REGARDS THE TENANT—

1st. He may hire the land in perfect condition for cultivation, and bring nothing but his stock, his implements, and his labour.

2nd. He may have made improvements and acquired a joint-interest in the soil, with or without protection for his rights.

3rd. He may be a tenant in perpetuity, or on lease, or at will.

4th. He may share the produce with the landlord.

5th. He may be sole proprietor as well as occupier.

6th. He may hold land in commune.

These conditions of tenure, as between landlord and tenant, are to a great extent the analogues of each other; and without taking them up in numerical rotation, we can lay down some general principles under which they may be classed, so as to indicate their relative efficiency in producing wealth, when no counteracting circumstances are in force.

The most important requisite for efficient cultivation is, that the farmer shall be secure of the return from any extra labour or expenditure he may put into the soil. All uncertain, short, or unprotected tenures are incompatible with such a requisite, and therefore to be condemned as injurious to individuals and to the country.

The next requisite is, that the tenure shall be such as will best secure a free application of capital, not only to substantial improvements, but to the working of the land. In communities where holdings are small, and farmers numerous, frugal, and saving, as in most parts of France and Belgium, a peasant proprietorship may secure not only the first of these requisites, but also the second, in both its elements, to a varying degree. Perhaps they are both secured to the greatest possible extent in places like the Western States of America, where land is cheap, and substantial improvements can be dispensed with. It is always to be remembered that capital well secured in land and its permanent improvements can now be borrowed in all well-settled countries at from three to six per cent., whereas the capital which is devoted to slighter improvements and the mere

working of the farm should give a return of at least ten per cent.

In large holdings, and with the ordinary class of farmers, all their capital is usually required for stocking and working the land. It would, therefore, be an undue burden, and a great limitation of profit, to impose on them the necessity of owning or improving in a permanent manner the soil itself. There is now such an abundance of capital seeking for investment in that secure manner, that all farmers are induced rather to take large holdings that are in good condition, on which they may earn ten per cent. for their money, than small holdings in which half their means would be sunk on expenditure which only gives a small though well-secured return. In keeping these elements separate, there is a great saving of capital, which improves the efficiency of cultivation.

The third requisite we shall name is freedom of action to the farmer, so that he may not be unduly hampered by covenants in his lease, by the restraints of entail or settlement on the part of the landlord, or by the rigid customs of communes and joint-holdings. The last two of these difficulties are common in Russia and Italy, where they probably form the greatest existing hindrance to the commercial progress of these countries; the other difficulties are subjects of daily discussion throughout the United Kingdom.

These three requisites of efficient cultivation may be briefly termed security to the returns of industry, economy of capital, and freedom of cultivation.

Trying the variety of land tenures by these tests, the ideally best form, in the case of a farmer who is assumed to be sufficiently rich, is ownership of his holding; but with agricultural communities in long-settled countries, where land is dear and capital abundant, the best form is a fixed rent in perpetuity. From our point of view, well-improved land at a high rent is better than land at a low rent, which has to be improved by the cultivator, and thereby becomes an absorbent of his capital.

But it may fairly be asked, if a landlord be too poor to carry out improvements, and unable properly to do his part as owner of the soil, should the lease not be made a permanent one? It does not seem unreasonable to make such an owner the receiver of a mere rent-charge, and to transfer the ultimate disposal of the soil's produce, and the fluctuations of its commercial value, to the individual who has brought it up to its final condition of improvement. This is a question of much interest as affecting the land system of Ireland.

The next best tenure to a perpetuity is a long lease for land in good condition and fully equipped, while under that comes a long lease for unimproved land at a low rent. On the other hand, the worst ideal tenure is that which throws improvements on the occupier, and gives him no legal security either for length of tenancy, amount of rent, or repayment of outlay. This was the state of matters in Ireland till its continuance became intolerable, and its removal a benefit, both to the country and to the individual.

One degree less injurious is that form which hampers

the farmer by rigidity of custom or covenants, and deprives him of the stimulus to enterprise which freedom and a full enjoyment of the results of his labour alone can give.

Such are the general principles applicable to the various forms of tenure, some of which we have recounted. The tendency in some land laws to encourage the accumulation of very large estates in the hands of one possessor is not usually regarded as favourable to the most abundant production. Various extraneous interests have to be served in such cases, such as the maintenance of political power or social prestige, which occasionally militate against the free endeavour to draw out all the resources of the soil. This cannot, however, be laid down as a universal rule.

There is little to be said regarding the natural supplies to be obtained from the rivers, the lakes, and the sea. The mode of paying rent for the hire of these is usually a fixed sum for a short lease. The intervention of the law to make close seasons is one of the special features of the mode in which such natural supplies are guarded and cultivated. The restraints thus imposed differ from the restraints on the cultivation of land in this, that the former are acknowledged to be favourable to production, while the latter are nearly always the reverse.

Regarding the natural products of the air, they are chiefly associated with the barren soil that has been appropriated to recreation. The preserving of grouse must be looked upon as a beneficial development of wealth in the most unfavourable corners of the land. But the question of protecting game in well-

cultivated districts presents a very different aspect to the economist. Although it is alleged that the sale of rabbits amounts to very many thousands of pounds a-year, it has never been accepted as a fact that their value is equal to their cost. Besides, it is seldom that the individual who bears the cost receives the return.

So far, we have spoken of the wealth that is drawn from the vital energies of Nature; but in addition to these, the ores, metals, and minerals which are extracted from the surface of the earth form a very important part of the products of some countries. The portions of land from which these are obtained have also been appropriated by individuals, and are let out on hire, or, more correctly speaking, for rent. But it is not a rent in the same sense as the hiring value of land, which is properly the beneficial use of an instrument; the rent of a mine is a share of the wealth which is drawn by painful efforts from Nature's secret stores. To distinguish a rent of this kind from that of land, or houses, or fisheries, it is usually called a royalty.

The mines and portions of the soil which have been worked for the production of gold and silver have been subject to a different law from that of other mines. Iron, lead, or tin have been produced like any other form of manufactured wealth, and their supplies have been controlled by the fluctuations of demand in an open market, and the cost of their production. But it has never been a regular industry to dig for gold or silver, at any time or in any country, until within the last seventy

years. These metals—the first in its limited, the second in its more extended degree—had always been very difficult of abstraction in former times, and that task was assigned to slaves or captives. Wherever a store was accumulated, the state which held it was a mark for the envy of other nations, and a doomed spot for invasion. The gold and silver of ancient times passed with the conqueror's crown, and was the most coveted trophy of conquest. No greater mistake can be made than to speak of these articles as finding their value like other commodities, in accordance with the natural cost of their production. Since 1848, gold and silver have been discovered in quantities such as the world had never seen before; but even now that mining is free, save possibly in some remote parts like Siberia, it is not yet the cost of production, or the higgling of the market, which regulates their value, as with other commodities. In the early stages of the gold discoveries, there were millions' worth of the metal obtained at a cost that should, under ordinary circumstances, have reduced the selling price to a fraction of that which was actually received. But every ounce of it found in London or New York an open depôt, with a fixed and satisfactory payment. The same sort of influence controlled the price of silver, till France and other nations closed their mints, and there was no longer an unlimited market and fixed price for it, as there still is for gold. This subject will come up again for consideration in the second part of the book, in connection with the international movements of the precious metals.

Before we leave this question of withdrawing from the earth those materials that are stored in its recesses, it is necessary to draw attention to the difference between the products of mines, and those in which Nature's vital energies are ever renewing our supplies. It is a distant but certain prospect, that our coal and iron will approach exhaustion, and there can be no possibility of replenishing the store. The coming event scarcely throws a shadow on our path yet, but one day it may darken the whole horizon. So many millions of years as that supply of ore and fuel lay hidden unheeded and unsought for, it may be that as many thousands shall suffice to consume it out of existence. It was a fit warning, given by a great man in our own generation, that we should be wise in time, and, as we leave a diminished heritage of natural supplies, take care to diminish also our national indebtedness.

CHAPTER III.

Second co-efficient, namely, the motive forces supplied by Nature—Absence of these appliances in ancient times—Steam the most important—Specially modern character of this co-efficient—England's freely bestowed supplies of Coal.

HAVING considered at some length the first and greatest co-efficient in the production of wealth, we come now to deal more briefly with the second, which is the application of the moving forces of Nature to the task of supplying a power which man does not possess in himself. This co-efficient is presumed to have been but slightly available in the great industries of former times, or in those mighty constructions, such as the pyramids of Egypt or the aqueducts of Rome, which still impress our imagination by their enormous absorption of human labour, while it is conspicuously present in the tall chimneys and smoky canopy of a modern manufacturing city. There are few generalised facts under this head which can be incorporated with the other axioms of Political Economy. Nature's forces are of many different kinds, and are of power sufficient to do all the servile work man can desire; but there are limits to the arrangements by which, in some cases, they can be made serviceable. For example, the power of gravitation is mighty and continuous, yet the principal force that is derived from it is the water

power of rivers and streams, which forms but a small part of the natural forces that are now in requisition. The undiscovered resources which may yet be found in heat, electricity, or other agencies, are of course hidden from us among the secrets of the future.

The most important and serviceable of Nature's motive powers is that of steam, which again is derived from water and coal. But these are part of Nature's stores, so that we have a close connection between the first and the second of our so-called co-efficients. This connection, however, is chiefly in their common origin, proprietorship, and returns. An iron mine and a coal mine may be classed together as property, but in their application to the production of wealth the difference is as great as between coal and capital. It is a difference in kind. The one is material, the other is power.

There is something specially modern and local in the development of this auxiliary to production. Only a hundred years ago, such an expression as the moving forces of Nature would have suggested ideas that were limited to the waterfall, the windmill, and the ship at sea; but all the motive power which these contributed to the assistance of man's efforts would be now but a drop in the bucket compared to the multifarious achievements of steam. Other auxiliaries have progressed steadily with the growing supplies of wealth which they have helped to create; but this aid to production has advanced with a rush, and outstripped all others in its application. Although steam is the most important moving force

we possess, and, like a mighty beneficent genius, is ever in attendance to lift the heavy weight and carry the intolerable burden, yet the country which above all others depends upon that wealth-producing power for a vigorous existence, bestows the materials from which it is derived as freely to her rivals as to her own children. There is not in existence any such striking testimony of a desire to improve the common weal of all nations, as that which is exhibited by England in granting free shipment of her treasures of coal to all the people on the face of the earth.

CHAPTER IV.

Third co-efficient, namely, labour-saving Machinery—First and most important are the means of conveyance; next come the engines and appliances of power; and, lastly, the manipulating machinery—Their possession and returns are in the hands of Capitalists—Tendency of large Capitalists to give place to small Shareholders.

WE come now to the third co-efficient, the important labour-saving contrivances, among which the first place should be given to the means of conveyance. Production is, to a great extent, a process of bringing Nature's materials and Nature's forces into contact; place them in juxtaposition, and in a thousand cases the desired results are produced. Man brings the proper seed into contact with the prepared ground, and the vital energy produces growth. Man brings the lighted coal to the vessel of water, and the great force is at once developed which will move the spindles or drag the train. The coals, in which lie hidden the latent heat whence motion comes, are lying in masses deep below the surface of the soil; these have to be moved, divided, and placed beneath a thousand boilers. Displacement, conveyance, and replacement—such is the nature of production. Hence we are dependent to an extreme degree on railroads and engines, paddles and screws, waggons and steamships. The very earliest and simplest inventions for the purpose of conveyance were of supreme value. How can we now realise the improvement effected when cart-wheels and

common roads were adopted? Though these were the first, they were not the smallest steps in advance, and we have only been improving on such ideas in all our modern inventions.

Next to the all-important means of conveyance come the ponderous machines, the hydraulic presses and steam cranes which do the otherwise impossible work of the world. These are the giants in the realm of machinery; but after them come the subtle movements of spindles and looms, the ingenious adaptations of wheels and cranks, which displace the ineffective fingers of man and woman. The ingenuity which invents these movements seems to find no obstacle that cannot be surmounted, and in the success of such inventions our hope of a steadily increased production of wealth chiefly lies.

The possession of these labour-saving contrivances, and the returns which they earn, belong to those who are called capitalists. Probably the greatest portion of such machinery is owned by individuals who do not personally supervise its working, but, like the landlords with their land, make a practice of leaving the machinery, in which they have a sole or joint ownership, to be managed by other people. Everybody is a capitalist now-a-days who holds stock, shares, or debentures. A distinction should, however, be drawn between those who receive the return for their capital in the shape of a fixed and secured payment, and those who only get a share of the net results. The former class receives a payment of interest, the latter receives a profit. The payment of interest most nearly resembles the nature of rent,

while the receipt of net results most nearly resembles the gains of the farmer.

In addition to the ingenuity of those who have invented the machinery, the influence which has most powerfully extended its use has been the laying out of capital, gathered from all quarters, and scattered in all directions where interest or profit could be obtained from its working.

There has been of late years a tendency in all advancing countries to increase the application of machinery to a greatly magnified extent. The increase of wealth has swollen the amount of means in some people's hands to an enormous degree, and there are now abundant instances, formerly undreamt of, where processes of manufacture are combined in the same premises, which might have afforded occupation to half-a-dozen different capitalists. But the division of capital is in some countries meeting this tendency more than half way, and the most striking feature, in recent developments of commerce among ourselves, is the extent to which capitalists are withdrawing from sole proprietorship, and spreading their wealth over many different fields, while small amounts of savings, from limited and obscure sources, are filling up the spaces left vacant by them. The large establishments, in which are combined many different processes, are extending on every side, but the great capitalists are being gradually replaced by small shareholders. The system of limited liability seems likely to change eventually the whole organisation of such manufacturing establishments in these countries.

CHAPTER V.

Fourth co-efficient, namely, human and other Labour—Confined now chiefly to inventing and ministering to Machinery—Wages the return of Labour—Net profits found after deducting allowance for Wages—Nature of Profit—Characteristics of Wages—Different senses in which they are high or low—Causes of these differences—Tendency of Wages to maintain a certain ratio; also to advance under given conditions—Moral effect of high Wages—Trades Unions: their want of delicacy in negotiation—Proper use of Trades Unions—Difference between fall in prices to a Merchant and fall in wages to a Labourer—Suggestion of paying by a Bonus—Courts of Arbitration: their defects—Policy of diminishing production—Piece-work—Freedom of migration to Labour.

HAVING thus considered the general application of labour-saving machinery; noting that its possessors are called capitalists, and that the returns which it earns are paid sometimes in the form of interest and sometimes as profit; observing also that its use has been chiefly developed by the ingenuity of inventors, and the widely-scattered division of capital, we come now to discuss our fourth co-efficient, human and other labour.

The true department of human labour is to contrive, to watch over, and to minister to the engines which accomplish the enormous tasks we require of them. More and more we leave the work to those creatures of our brains, and reserve to ourselves the mere duty of attending to their requirements. But there is still room for all kinds of ability, and a place for every capacity. The lowest

grades will find scope for their muscular activity in performing the unavoidable and incidental drudgery for which machines are not available, or in attendance on the multitudes of lower animals which are pressed into man's service. In waiting on and watching over the movements of machinery, there is much skill and training required. In special tasks also, there is ample scope for the exercise of care and taste; while in the organising capacity that arranges the working of large concerns, and, above all, in the application of inventions, there is room for the highest powers the human mind can display.

Generally speaking, all persons who are engaged in the production of wealth are properly called labourers, and their portion of the produce is wages. But a classification is required here also, similar to that of capitalists, so as to distinguish between those who give their services for a fixed sum, and those who work for their own profit. Here, again, the fixed payment resembles rent or interest, while the fluctuating result of labour undertaken for the individual's own benefit resembles the gains of the farmer and the capitalist.

In aiming at uniformity and accuracy of definition we should always estimate a certain part of the profit earned by a farmer, a capitalist, or a manufacturer, as interest or wages. The division is to be regarded as existing only in idea, but there is a very simple basis on which it can be made—namely, the amount of earnings which the capital or the labour devoted to making profits would have secured, if lent out on interest, or given for a fixed wage.

If capital or labour employed for one's own benefit brings in a less return than might have been got in interest or wages, though in common language that would simply be called a small profit, yet, in strictness, it should be called a loss. It is, therefore, quite a proper rule, though not a universal one, that all individuals working for a profit should charge against the net results a sum equivalent to the interest and the wages that could have been earned in the employment of another.

Profit is to be regarded as surplus returns, dependent on chances which may be foreseen and calculated to some extent, but always with a measure of uncertainty in the long run. Profits are always liable to fluctuation, and that is the element which sets them apart from any strict form of wages, compensation, interest, rent, or other fixed mode of payment. They are winnings, not earnings.

We have said that the return of all labour is, strictly speaking, wages; and these wages are high or low in several different senses. First, as compared with the rate in former times. In every case, probably, the rate of wages has steadily advanced in all progressing countries during the last three or four centuries. This may be called an advance in price—the price of labour. Most articles of production have advanced in price during the same period, but few of them have risen so much as the rate of wages. Second, wages are high or low in different trades, and for different sorts of labour. The variation of wages in any country is regulated by many circumstances, at which we can only glance briefly; perhaps the most

important is easiness of access to the employment. This is naturally combined with the absence of special skill or training, and is exemplified in out-door work by the common labourer, and in indoor employment by the ordinary clerk or porter. Highly paid employments are not made so by requiring great powers of mind, but most commonly by fitness, which nothing but long training can give, and which few persons can obtain. This is the reverse of the previous case, where employment is paid at a low rate, because many persons have had the opportunity of being fitted for it. Between these extremes there are varieties in the rate of wages, which depend on many incidental circumstances. For example, there is the hardship of exposed employment, like that of bricklayers, as compared with a sheltered employment, like that of carpenters. There is the disagreeableness of such work as boiler-making, compared with the easier duties of an ordinary mechanic. There is the skill and accuracy of a cabinet-maker, as compared with a mere joiner. Something also depends on the conventional respectability of such trades as that of a shopman, compared with that of a butcher, the former receiving the smaller wages. These are considerations that act chiefly by retarding or urging the flow of young men into the various occupations among which they have a choice. Wages are generally high where the narrow openings have let in few candidates, and low where a wide opening and simple acquirements have caused a rush of competitors.

There is yet a third sense in which wages are

high or low, and it is the most important of them all. It has nothing to do with high or low rates, but everything to do with large or small profits, and with cost of production. We refer to the high or the low proportion of wages to the value of the article produced. Perhaps a better expression to use for this purpose would be to say that labour is dear or cheap. For example, if a commodity falls in the market value, while the wages spent in producing it remain the same, labour has become dearer in that trade; and if an advance takes place in market value without an advance in wages, labour is then cheaper. When colliers were paid at a very high rate of wages in 1873, a much greater margin was still left for other expenses and for profits than in 1878, when half the former rate of wages did not leave the coalmasters as much out of their produce as would pay for pumping the mines. From their standpoint wages were still too high, though reduced to one-half of the former amount.

When a general ratio of wages has been established in different occupations, there are strong forces at work to prevent that ratio from being seriously altered. The fluctuations in the selling price of manufactured articles tend to alter that ratio, but are invariably counteracted by the flow of labour. For example, when coal began to fall in price, a reduction was made in colliers' wages. This process went on for some time; but when the pay of these workmen became lower than the average ratio of other trades, many colliers left their employment, and swelled the ranks of those seeking other occupations. There

was an immediate overflow into all other departments of unskilled labour. It is this flow of labour which prevents the fall in value of any commodity pressing with its whole force upon the wages paid in producing it; and, on the other hand, when a rise in value increases production, the slight advance in wages offered by employers also causes an inflow of labour which prevents the wage-receivers from getting the whole of the benefit. This tendency to equalisation of wages upon a certain accepted ratio is an extremely important element in the supply of commodities.

When wages have been settled upon a general basis over the different trades, there is a tendency in some countries for them to show a gradual movement of advance, and in other countries to show a stationary or falling tendency. This difference is the main element of a progressing or a retrograding state. England may be taken as an example of the former, and China of the latter. The movements referred to depend on the growth of population, as compared with the growth of capital and other co-efficients. For many years, the co-efficient which we call labour has increased less rapidly in this country than these others—namely, capital, machinery, and natural forces or motive power. Hence wages have steadily advanced, and if at any moment some leading commodity fell greatly in market value, the labourers employed in its production overflowed into other departments, and so checked the tendency to any material reduction in their payment. Had population increased as rapidly

as the other aids to production, it may be presumed that wages would have remained stationary.

It may be taken for granted that increasing wages, caused by a demand for labour, tend to produce a rapid increase of population. A higher standard of living is introduced, and this improves the health and physical powers of the labouring class. But at the same time a higher standard of comfort is created, which raises the self-consideration of the people, and induces habits of foresight and saving: herein lies the greatest of all the forces that tend to check the growth of population. So powerful is this element of prudential foresight among the French peasantry, that they appear to be diminishing rather than increasing in numbers. We are very far, however, from that condition of society in these countries at home.

One of the most important effects of a state of society such as we have mentioned as existing in England, is the ease with which workpeople can combine to press for advance of wages in good times, and resist their reduction in bad times. Trades unions are formed without difficulty under such circumstances. There is so little "floating labour," so few persons going about looking for employment, that capitalists cannot replace with readiness the workmen with whom they may have a quarrel. Not only is the mass of labour well compacted together, but capitalists are numerous, and ready to step into each other's places. Hence the tendency of wages to run up as high as the market for commodities will afford. There is a constant upward pressure, so that

it is quite true, as stated by Mr. Brassey, that trades unions have not of themselves done so much to raise wages, as the demand for labour has sufficed to do of itself. Nevertheless, the united action of working men has given them many advantages. One of its most important results is to spread out widely the effect of any improvement that may arise in a single branch of business. During the great activity in the production of iron and coal some years ago, the action of the trades unions helped to convey the advance of wages from these trades to others much more promptly than might otherwise have been the case. Again, their interference helps to moderate and disperse the downward action of falling values, when it presses heavily on those employed in particular trades. But though these results are beneficial to the working class, trades unions are like heavy bodies in motion; if they sway or oscillate, their momentum is so great, that they run a risk of overturning and destruction. All masses of people are liable to be led away by violent individuals, and they seldom know when to stop, either in one direction or another. Such combined bodies have no delicacy of touch, no tact; and in important negotiations, when a certain point is to be gained but not overstepped, delicacy of touch is everything. For want of it a thousand strikes have occurred, bringing sure, though silent, ruin to capitalists and labourers alike, which might have been easily averted by a little tact and moderation on the part of the unwieldy trades unions. The true use of those terrible powers which lie in a strike or a lock-out is the same as that of a national

armament, always to be kept ready and available for an extremity, but never to be handled as an ordinary method of settling difficulties; a diplomatic committee is the proper instrument for that purpose.

But it should never be forgotten, that while employers are accustomed to fluctuation and uncertainty in their profits, and are always gaining or losing a point without thinking more of it, the position of a working man is something very different. Every penny of his weekly income is usually allotted beforehand to a specific purpose, and a reduction of wages is at once felt as entailing a serious sacrifice at some point. When employers propose reducing wages a penny an hour, they are perhaps trying a chance, and can take the result either way, which they have no doubt a perfect right to do; but this reduction of a penny an hour is something serious to the individual who has to retrench his expenditure by 4s. 6d. or 5s. out of his 30s. a-week. It means so much of hardship as may well arouse a very bitter feeling of distrust and resentment; and though it is only the same sort of blow that a fall in prices is to a merchant, it strikes the working man or woman in a very different way.

As it is impossible, however, that wages can be kept at a uniform rate, and their close pressure upward in good times makes it absolutely necessary to reduce them when values are falling, it might be wise to take their lowest level as a normal rate, and treat every advance granted in times when prices are rising as of the nature of a bonus—something over and above the wages, like a profit. Those who

inculcate habits of saving would have this point on which they could work as a fulcrum, and from it gain a pressure on the thriftiness of the people.

The object that is sought to be attained by this suggestion, is to encourage the habit of counting on something less than the whole wages as available for expenditure; so that, when the unavoidable reduction of income does arrive, it may not be so keenly felt as a loss and a sacrifice.

Great endeavours have been made to surmount the evil of strikes by Courts of Arbitration. There is an inherent weakness in that method of settling such disputes, which is likely to prevent it from ever becoming adopted as a system. The weakness lies in this, that wages are simply the buying and selling price of labour, and are a continual subject of negotiation; but people who buy and sell are not willing to have the price always fixed by an outside party. They know what they can afford to give or take, and cannot leave that decision to be made by others. It is all very well now and again, when two parties differ, and see that they have misunderstood each other, to refer to a third party, and ask him to say what would be a fair compromise; but the differences between buyers and sellers cannot usually be thus compromised. Each party has to make a wider trial of the market. But though this may be a true description of the general bearings of the case, it leaves ample room for the occasional reference of disputed points about wages to local courts of arbitration; and for the sake of meeting these occasional wants, every district ought to be

provided beforehand with suitable arrangements for carrying out such a proposal.

When a fall occurs in the market value of any commodity, the manufacturer of it is very often caught in a trap from which escape is difficult. He probably cannot stop production, on account of the extensive system of machinery and workmen that may be in operation. Not only would he lose by the non-employment of his capital and the injury to his machinery, but if trained hands are once scattered, it may take years to bring a good set of them together again. His first thought is, therefore, not to stop production, but to reduce its cost, and in this he has few elements to work upon, as he cannot readily reduce rent, or taxes, or interest, or fuel. His chief resources are reduction in raw material, in the ordinary furnishings that are required for the particular trade, and in wages. Two of these can only be acted on by abstinence from buying; the last is the readiest resource to which he is sure to fly.

Two years ago, when cotton-spinners in Lancashire proposed a reduction of ten per cent. in their workers' wages, they were met by a counter proposal, offering to agree to that reduction if the general turn-out of goods was reduced at the same time by only working the mills four days a-week; in the event of their working five days a-week, the operatives would only agree to a five per cent. reduction in the wages.

This was a most unexpected and novel proposal, and great difference of opinion arose in the minds of the public regarding it. Nothing could have been better devised to meet a certain combination of

circumstances; but the proposal was declined, and the riotous proceedings which took place immediately afterwards threw a slur upon all the actions of the trades unionists.

The effect of reduced production, along with an abatement in wages, is to lower the cost of nearly all the items that go to make up the expense of producing an article. It makes a slacker demand, and a lower price for raw material, fuel, and furnishings. When to these we add a reduction in the great bulk of the wages, we get a cheapened production all round. No doubt there are some items that counteract this tendency; for example, rent, taxes, interest, and all yearly or fixed charges. There are also the wages of those persons who may submit to a five or a ten per cent. reduction, but whose salaries cannot be made to correspond to four days' work, or five days' work, like the general body of operatives. The effect of these exceptions is to modify the results of a reduction in the larger items of expenditure, but they would rarely counteract them entirely. Nothing, therefore, could be more perfectly in harmony with the teaching of Political Economy than the idea of a reduced production, in combination with a reduced rate of wages, at a moment when supply is in excess, so as to throw the pressure on all parties alike.

But the scheme will only serve for a temporary fluctuation. It becomes a proved failure if the result of a few weeks' diminished production is not sufficient to bring back the market value of the commodity to its former price. If this narrowing

process only places the trade on a working level, the employés must give way, and take what rate of wages a full production can afford; and if they are thereby reduced to a lower level than the average ratio, as compared with other trades, the overflow of labour will reduce production in the only manner which can be recognised as legitimate in the long run.

Thus we find that voluntary abstinence from production, in order to relieve the market, is a proper remedy for a temporary fluctuation, and spreads the loss on all parties with some approach to equality; but for permanent movements, the diminished cost of production must be obtained to some extent from reduced wages, and the overflow of labour into other trades will eventually regulate the movement.

One of the economic aspects of wages is payment by piece-work instead of by time. There is always a difficulty and an uncertainty, in the manufacturer's calculations, as to the precise share in the cost of an article which will be taken up by wages. This makes it desirable to him to pay by piece-work, as he thereby knows his precise outlay. The benefit is not confined to the employer. If it gives certainty to him, it also gives justice and fair payment to the employé. It has been one of several minor evils attending the action of trades unions, that they have done so much to abolish the distinction between good and bad workmen. They have enforced the same payment for the idle and for the industrious, thereby demoralising the honour and pride of workmanship in the men; and, in doing so, made the calculations on which enterprise is based more hap-

hazard than is necessary. Piece-work is the remedy that is sure to be adopted to the fullest possible extent, and the unions bring a stain on their reputation by resisting it.

There is one point in the department of labour on which the action of trades unions has not yet been uniform or decisive. It concerns the freedom of migration, not only from one district to another, but from one country to another. The fact that capital has been free to flow without restriction has been a signal benefit to the whole world. It has been advantageous, not merely to the rich countries that sent forth capital and capitalists, but to the poor countries that received them. In the condition of assimilation to which adjoining countries are tending, will there be equal freedom of movement to labourers that there is to capitalists? Such freedom would undoubtedly have various social and political advantages, and on strictly economical grounds it is desirable that the competing industries of different countries should be equalised as much as possible. But employers and trades unions will naturally take very different views of the matter. We find them already in direct antagonism on this subject in Melbourne and in San Francisco. Within the narrower range of labour movements at home, we see both parties combining to assist in the transfer of agricultural labourers from over-supplied districts in the south to the great labour centres of the north. Again, in assisting artisans to emigrate from this country, when work is scarce, to other countries that might afford better employment, trades unions have

promoted that movement as well. But when we look at the violent exertions, made by politicians in their interest, to prevent the importation of Chinese labour in California, and the tendency to follow the same example in Australia—when we remember the ready tendency of working men to adopt protectionist ideas, and to oppose the free importation of commodities, we may well doubt if they will tolerate an unrestricted importation of foreign workmen, should such a movement ever become fully established.

CHAPTER VI.

Fifth co-efficient, namely, Capital—Nature and use of Capital—Peculiarity of the increased value of Capital in the Soil—National Possessions that are capitalised, and those that are not—Distinction between fixed and circulating Capital—Their influence on Wages—Effect of more rapid increase in Capital than in Labour—Distinction between Capital and Money—Nature of loanable Capital, and of Credit—Elasticity in their Supply—Promissory Notes, and their relation to loanable Capital.

WE come now to the examination of our fifth co-efficient, capital. The simplest idea of the nature and use of this agency, as distinguished from wealth stored or consumed, may be taken from the experience of the emigrant. Let us suppose him to have gone to the Western American States, and to have bought for a trifle some of the concession lands that border the railways there. He must take with him implements, draught animals, seed, and a little money. The cost of these, of the land, and of any other necessaries for putting his farm in order for raising a crop, including the food and wages of servants and animals employed for that purpose, are all capital. When the harvest is gathered in, whatever may be required for mere family use and comfort is wealth intended for consumption. Whatever is laid aside for seed, farm expenses, and fresh improvements, is wealth capitalised, and, if a few years of prosperity pass over his head, the money he may place apart in excess of his requirements is savings.

If any of that saved money be put into a bank at interest, or invested in stocks, or lent on security, then it also becomes classed as capital. Moreover, if the railway beside him improves the worth of the land, so that his farm doubles in value over and above his improvements, that "unearned increment" is capital so long as it remains in the soil unrealised. If he sell the farm at this advanced price, the cost is obviously an item of capital to his successor also. Thus we get an example of capital that is not saved wealth. The increase of value was a lucky return, a profit which did not come into his pocket till the land was sold, but it lay there unrealised. Hence it is common to say that capital is the result of abstinence, but such abstinence is only in the individual who refrains from realising his accumulations.

The question arises here, is all the accumulated value of land in fully settled countries capital? Of course we say yes, in so far as it is used for the production of commodities, and not simply devoted to pleasure and enjoyment. It is all capable of being bought and sold, and is an efficient in the procuring of wealth. The enormous increase in that value within the United Kingdom during the last few hundred years, is an accumulation of capital in that sense; but, apart from the improvements that have been effected on it, the "unearned increment" in its amount is not derived from national abstinence directly, but from a general and more or less uniform rise in prices.

The roads of a country are part of its capital; so also is the expenditure on self-defence, if it tends to

greater future security. Important national works, such as schemes of irrigation, the embankment of rivers and sea marshes, the erection of harbours and lighthouses, are capital; so also are its army and navy depôts, its government buildings and courts of justice. But here we must draw a line of distinction. Some of these are capitalised—that is, the cost of them is borrowed, and a yearly payment of interest is made; while of others the cost is paid in full by the nation or district, and all further payments cease. For example, common roads are seldom capitalised, expenditure in war or for defence is more largely so treated, while irrigation schemes are usually capitalised in full, and the interest paid for successive generations. Those works which, like the public roads, may be classed as capital, though not capitalised, form a common benefit which all have paid for and all enjoy; but they differ from some common benefits, such as a bracing climate, or the contiguous waters of the ocean, in so far as that they could at any time become again appropriated, and bought or sold for the benefit of the community. It would be quite feasible, in some instances, to capitalise the navigable rivers of a country, which are a common benefit, and to borrow money on the security of the tolls that could be raised from passing vessels. The deposits of guano in Peru were capitalised with eager promptitude. As to the expenditure on war or national defence, that is only a temporary benefit, and may require to be repeated in another generation; hence the necessity of paying off the capital borrowed for such purposes within a reasonable time.

Capital is regarded by us as anything that could be bought or sold, which is used for producing or distributing wealth, no matter what may be its origin, nor how it may have acquired its value.

The ordinary classification of capital into fixed and circulating is one that can be defined in words and understood in idea, but could not be carried out to an absolute division. Fixed capital is that which is sunk in buildings, plant, machinery, or implements, that are to be used over and over again for productive purposes. Circulating capital is that which is invested in raw material, wages, saleable stock, and everything that is to be recouped to the capitalist on the sale of his goods. Generally speaking, manufacturers' capital is chiefly fixed, and a small portion only is reserved for circulating purposes, according to the nature of the business and the promptitude of the sales. On the other hand, a merchant's capital is nearly all circulating, with only a small portion fixed in warehouse accommodation. When a spinning factory, with its machinery in full working order, is hired, and the occupant simply provides raw material, furnishings, and workers, the owner's capital is fixed, and the occupant's capital circulating. But sometimes raw materials are used twice or thrice, and are scarcely classable either with fixed or circulating capital. Again, the capital of a railway company is used in both ways, and yet it is very decidedly fixed as regards the share and debenture holders, while it takes both forms in the hands of the directors.

Such difficulties of classification occur in many

departments of Political Economy, but they are of no consequence, if the definitions given assist our minds to a better grasp of the subject, and enable us to deal with it in portions.

One of the pet theories of the last generation, which serves admirably to illustrate the injudicious mode of treating such subjects which was then common, has to do with the relationship between wages and circulating capital. It was assumed, fairly enough, that the supply of labour is a fixed thing at any given time; and it was also assumed that the supply of circulating capital available for wages is equally definite. Consequently, it was argued, the purposes of a trades union are impossible and absurd in so far as it seeks to raise the general rate of wages. If there be only a definite amount of money for a definite number of workers, you cannot increase the payment all round. If one portion of the workers get an increase, another portion must suffer a reduction or be thrown out entirely, and industry be curtailed. The theories of that time always sought for mathematical ratios after this fashion—given the amount of circulating capital, divide it by the number of labourers, and the quotient is the average rate of wages.

Let us return to the simple facts of the case, and for the present we may ignore the circumstance that a very large proportion of circulating capital is borrowed wealth. Every addition of fresh capital in any country seeks opportunities of employment. It cannot be confined to the business of merchants alone, and must search out some opening in manufactures.

In doing so, it increases the demand for those commodities that serve as fixed capital, such as buildings and machinery, raises their price, and helps to advance the wages of workers employed thereon. In the next place, it increases the demand for raw materials, furnishings, and labour—labour being only one of the requisitions made by fresh capital. But the position of the workmen is improved all round, by the demand for commodities which serve both as fixed and as circulating capital. It is evident that the latter is only an appendix to the former, and their proportion will be calculated beforehand according to the nature of the business. As a general rule, people economise their circulating capital, and devote as little as possible to that purpose. If there be a surplus, it is treated as fresh capital, and partially goes into the fixed division. The two divisions are the adjuncts of each other, like the money that may be in different pockets of a man's coat. Thus there is a relationship between the upward and downward tendency of wages and the movements of capital; but it is the capital *as a whole* that produces the effect

While a general increase of capital strengthens the demand for all commodities which take a fixed form, it increases the production, and tends to diminish the price of articles for consumption. In this tendency to reduction of selling price, and in the increasing demand for labour, there is a double pressure on all other capitalists who are manufacturing such articles. Therein lies the check which is put upon the application of capital for home purposes in all wealthy countries. So vigorous is the competition among

manufacturers in our own country, that the unskilful continually die out, and the skilful only survive. Capital is driven elsewhere, and has to seek its outlets in every part of the world. But why should capital not be unlimited in its application? It is wealth devoted to reproduction. It is not money, except at the moment when it is put into a monied form for the purpose of transfer. Why should there be any check to the application of this wealth? Is it possible that there could be too much production? The answer is, that capital is but one of the co-efficients of production, and it is only when it grows more rapidly, and out of proportion to the other co-efficients, that a check is put upon its operations. Labour-saving contrivances keep pace with it, as that is the form it is immediately put into; but population cannot be manufactured like machinery, and the supply of labour lags behind. In England the supply of capital has been for centuries, with occasional fluctuations, in advance of the supply of working people, and its overflow is in reality a search in various parts of the world for a sufficiency of other co-efficients to give it scope for its operations.

It should always be remembered that capital is not money, any more than it is stone and lime, or iron. It is a surplus of commodities, accumulating from year to year, and always seeking to be put into an eligible form. Perishable goods are not an eligible form; but buildings, railways, ships, and engines are suitable. Some of it is always in the temporary form of money, while it is being transferred from one

commodity to another, or from one user to another. As it happens that this temporary form is the shape in which it passes through people's hands, a confusion has arisen in their minds which leads them always to think of capital as money. Yet the loanable capital alone, not including fixed capital, in the United Kingdom, is probably three, four, or five times more than all the money that is current.

There is another important characteristic of our subject which has strengthened that impression. It is the remarkable fluidity of capital in wealthy and well-settled countries. Once on a time men held their own savings, and traded on them alone. Now everyone parts with his savings—even business people do so to some extent—and they are traded on by others. Capital flows by millions of streamlets into many reservoirs, and flows out again in directions of which the owners have neither knowledge nor control. If land be communistic in ancient forms of civilisation, capital is more markedly so in its modern and most advanced condition. It is this tendency which requires a solvent in the form of money to assist its movements, and confirms the mistaken impression we have referred to, that all capital is money. If a million's worth of commodities were sold for cash, with the view of being turned into capital, such capital would not be productive till it would be transformed into commodities once more. The money is always floating on the top, making its transfers over and over again as fast as it can be turned, but the serviceable articles of wealth are underneath.

In discussing the question of loanable capital, we may observe, first of all, that the amount lent is usually less than the property held by the borrowers. It is a just assumption that capital is only bestowed upon those who show an appearance of having something of their own with which to repay it. When capital is lent for a long period, it is usual to "ear-mark," or give a legal title to, some special article of property belonging to the borrower. This is called security. But although this may not be done, all the property remaining in the borrower's hands is available for the repayment, and consequently much capital is lent without any further security than a mere acknowledgment of the claim. In current transactions there is not even this acknowledgment; but any reliable record of such transactions will serve the same purpose. These details are referred to because the last mentioned forms of borrowing capital are called credit, and credit is a word that has mystified political economists deplorably. We mean to point out that every form of borrowing and lending is credit; credit granted on a security that is believed to exist, whether it be "ear-marked" or not. The security is in both cases found to be occasionally insufficient; but it may be always assumed that capital is only lent on reasonable assurance of repayment. We note, therefore, that credit does not increase wealth; it increases nothing; it creates nothing. It does not even transfer ownership, except in a modified sense; but it transfers the use and control of the loanable capital of the kingdom from the lenders to the borrowers. It is simply a

system of utilising advantageously what might otherwise have lain idle. All the lumbering and confused theories about the effect of credit on prices and production arise from a misconception of a few slightly complicated facts. One of these facts, for example, is the elasticity in the supply of circulating capital that can be made available for use, which perhaps leads some thoughtless people to suppose that a sudden increase of its amount is a creation of something out of nothing. But the borrowed capital that is so largely used to supplement the scanty allowance laid aside for circulating purposes, is either obtained from rich capitalists in the ordinary course of business by deferring payment, or from bankers by submitting to them a document recording a sale of goods, and with authority from both purchaser and seller to hold them responsible for payment on a certain given day. This is a bill of exchange, and against it the banker will lend the amount, with a small deduction, out of the funds placed at his disposal by depositors. The banker prepays the account to the seller, and recovers it from the purchaser at the fixed time, which is usually only three months, and seldom more than six months afterwards.

It appears that the bankers and bill-discounters of the United Kingdom have at their disposal somewhere about six hundred millions' worth of property, of which a large proportion is available for lending. At one time, when they had not a fifth or a tenth part of that amount, their funds were all required for discounting traders' bills, and they pledged their

own responsibility in addition by issuing promissory notes in the place of capital left with them on loan, in order to assist merchants. We shall return to this point immediately, but have to observe, meantime, that traders' bills and cash credits do not now use up anything like the whole of the bankers' funds. Consequently they have to put the surplus into the most saleable kinds of stocks, such as Consols, Exchequer bills, or American first-class bonds. They also lend for short periods on what are called Stock Exchange securities, and generally use the money (or, as we prefer calling it, the loanable capital) in the way that leaves it most easily realisable. This is the surplus which can be instantly converted into cash whenever a great revival of trade calls for multiplied loans in aid of circulating capital. It appears as if it sprung up at the will of the bankers, but it is simply transferred from other forms of loan which were less profitable.

The issue of bankers' notes in former times was not so much an addition to the loanable capital as a facility to its transfer. These promissory notes, issued, of course, without any basis of coin, such as is legally requisite now in this country, might be regarded as small accommodation bills between the bank and the holder. Whoever accepts them in payment lends the money on the faith of the bank's security; or the matter may be regarded as a difference of position taken by the bank as between borrowers and lenders. Under ordinary circumstances, in modern times, depositors trust their money with a bank which lends

it direct to its customers; but when the bank issues a note, whoever accepts that note from the customer lends the money or the goods himself, on the same security as if he had lodged them with the banker. The issue of a promissory note brings the lender and the borrower into direct communication, while the issue of a receipt to depositors makes the bank an intermediate between the lender and the borrower. The former method was that which was naturally in use before the latter system became organised. But the point to be observed is, that a banker's note creates nothing, it only makes a lender of anyone who receives and gives value for it. In speaking thus, we are leaving out of view for the moment any basis of coin or bullion on which such notes may be issued.

CHAPTER VII.

Mode of discounting Bills—Circumstances which increase or diminish the demand for Discounts—Effects greater on investors than on merchants—Capital derived from minute savings—Returns of Capital—Different classes of those who receive these returns—Various forms of Interest.

THE loanable capital of a country is therefore the basis of its whole system of credit, and credit embraces everything from a mortgage or a debenture to the deferred payment of a few days in any retail shop. In all alike there is assurance, which may or may not be ultimately realised, that full repayment will be given. The most interesting and important movement of loanable capital is that which affects the discount of bills. All other movements are more or less steady and gradual in their changes, but the fluctuations in this department are of great rapidity and importance. Let us trace them in detail.

Nearly every kind of production that begins with raw material, and, by various processes and through successive stages, is turned out at last an article of personal consumption, may be supposed to occupy two or three years from the earliest to the latest stage, and to pass through half-a-dozen different forms as merchandise during that period. For example, cotton is sold in a certain stage of completion, every autumn, to the factors employed by New Orleans shippers. These shippers put the cotton

through a process of cleaning, classification, and baling; then forward it to Liverpool importers; they, in turn, sell it through brokers to spinners. Next it comes into the hands of yarn merchants, and is sold by them to be used in weaving factories. From that stage it passes into the Manchester warehouse, and from thence it is again sold to merchants in different parts of the kingdom, who at last, with the help perhaps of one or two intermediate dealers, pass it into the hands that will only send it forth again as refuse. We have thus at least seven or eight different stages, at any one of which—except perhaps the first and the last—it would be legitimate business to draw a bill for payment.

Let us suppose that the Liverpool merchant, the spinner, the weaver, the Manchester warehouseman, and the retail merchant, each give acceptances at three months for a quantity of goods that have passed in different forms through their hands. It is not unreasonable to assume that they all sell within six weeks after purchasing, and that their bills are discounted in one Bank. Suppose that the Liverpool merchant grants his acceptance on 1st January for £500, and the Bank discounts the bill for the benefit of the New Orleans exporter. That is the first loan. On 15th February the spinner buys the cotton and accepts to the merchant for £600, and the Bank has now advanced £1100. On 1st April the factory owner buys the yarn and accepts to the spinner for £700, and the Bank, having received payment of the first bill, has now lent £1300. On 15th May the wholesale merchant accepts for £750, and the Bank

has advanced £1450. On 1st July the retail merchant accepts for £800, and the Bank advances are £1550. The turnover has amounted to £3350, and the Bank loans have varied from £500 to £1550, while the finished article is only worth £800.

Now let us observe in what way this case may be varied. If the sales were not made till three months after the purchases, the Bank advances would only vary from £500 to £800; but if the sales were made every month, there would be three bills running at a time, and the Bank advances would vary from £500 to £2250. Again, if there were a tendency to rising prices, and the goods were resold by one or two intermediate parties—as, for example, in the form of yarn before it reached the factory, or in the form of cloth before it reached the retail merchant—then there might be four or five bills running at one time, and the amount of advance might at some stage run as high as £3000 or £4000. The rapidity or slowness of the turnover makes the greater or smaller demand for loanable capital. If bills come in rapidly for discount, the banks must realise their other loans or securities, so as to meet the demand, or refuse the accommodation. This demand for loans on discount is the principal part of the movement that is usually called a demand for money. The heedless and inaccurate way in which this last expression is commonly used by writers of money articles will come up for remark again; but the demand for money, in its ordinary sense, is seldom a demand for more gold or more notes—it is a demand for capital on loan.

It may be remarked that the discounts required by manufacturers, such as spinners and weavers, should be the steadiest in amount. It is the merchants who create the pressure; but again, if there were no interference of parties who merely strike in on speculation for a profitable turnover, the merchants themselves could not increase the actual quantity of goods to be sold, and though they might make a rush for a time, it would necessarily die away. The greatest effect is produced by double or triple sales of the same lot of goods. This happens only at a time when prices are tending to advance, and speculation takes wing.

It is evident that the demand for discounts must at some times be very much greater than at other times, and it seems strange that a difference of 50 millions, lent to traders, should make no appreciable difference in the amount of gold or notes required. When business is steady, the use of gold and notes is at the minimum, as incomings and outgoings tend to balance each other in people's accounts. But when there is a change in trade, and discounts are either being curtailed or increased, many balances have to be settled by cash payments. It is chiefly when discounts are curtailed that more cash (meaning by that both notes and coin) is used; but as the whole of this cannot be allowed by banks to remain idle, it is passed on in payment of securities purchased, or of loans on securities pledged. Thus the cross accounts are maintained at the clearing-house, and the notes and coin are kept in circulation.

When the pressure for discounts sets in, the rate is

raised, and money—that is, loanable capital—becomes scarce in Lombard Street. It is worth observing that the difference between a three per cent. and a six per cent. rate of discount does not much affect the profits of business. Such a difference is a mere trifle on a single transaction. But it makes a great difference to those who lend capital or invest it. A six per cent. rate will cause the sale of millions' worth of investments that are only bringing in four or five per cent., and the bill brokers' hands will be filled with the proceeds. Thus, as regards ordinary business, the rate of discount is not a very important matter; but as regards investments, it has a most powerful effect.

We have now described some of the movements of capital in the form of movable wealth. In modern times, and in a country such as England, every one who saves is a capitalist, as savings are no longer stored away in coin, but are deposited with bankers, and lent out for productive or distributive purposes. This characteristic, which we have called the fluidity of capital, has effected a marvellous improvement in the serviceableness of that co-efficient.

As to the returns of capital, there are several different ways in which this productive wealth is turned to account. For example, there is the case of a person using his own capital, and laying it out for suitable purposes; some of it sunk in fixed forms, some reserved for raw material, fuel, furnishings, &c., and some for wages. After allowing as much for interest as could have been got by lending, and as much for personal labour as would have had

to be paid for the same service, the rest of the return is profit. Profit is the moving power of capital; it is the stimulus to enterprise; the hope of success, which ever tempts the merchant and manufacturer to run the innumerable risks of business. As a rule, nothing but downright and continuous loss drives a man from the trade he has embarked in. Profit, or the hope of profit, carries him on, and is indispensable to the healthy circulation of productive wealth, which, but for its temptations, might lie stagnant in heaps of gold.

As to capital on loan, its returns take some of the following forms:—

First, it may be a perpetual annuity; what the French call *rente*. This form is most common in the case of expenditure for great permanent undertakings and national indebtedness; a rent charge on land is of the same nature. The security in these cases is of the most enduring character, and a very important want is supplied by such perpetual annuities, which enable any one to make provision for young children or for benevolent institutions.

Second, the ordinary form of return for lent capital is a rate of interest fixed beforehand, and paid at the expiry of certain periods. This is the usual mode of arranging for all mortgages, debentures, and secured loans. It is also adopted by banks in return for the deposits entrusted to them, except when they do not make any allowance on such deposits.

Third, the form of discount, which means that the interest is deducted, according to a certain rate per annum, from the loan before it is granted. This is

the method adopted with all bills and loans for short periods. It is extremely fluctuating in its rate where there is a great market for loanable capital, and demand or supply vary rapidly according to the movements of trade or the vicissitudes of politics.

In all these cases there is an agreement beforehand as to what the rate shall be, and they are simply various forms of interest for the use of capital. But it is entirely different with money put into joint-stock undertakings, and invested in shares, whether these be of limited or unlimited liability. The capital is not then lent, it is used by managers or directors at the owner's risk; and the net results are not interest for the use of money, but profit on the transactions. This distinction has been already referred to, and the comparison made between fixed interest and fixed rent, as also between the profits of the farmer, who gets all residuary benefits from his labour, and the proceeds of the joint undertaking, where there is a chance of loss as well as of profit. It has also been pointed out that the term profit, strictly speaking, should only be applied to the proceeds, after allowing for interest and wages to the individual who has put his capital at risk.

CHAPTER VIII.

The first auxiliary, namely, Division of Labour—Various ways in which it affects Production and the other co-efficients—Its application universal and self-operating, without expenditure and without returns.

WE now come to the consideration of those passive co-efficients, or auxiliaries, which are not in themselves wealth, like those we have already named. The benefits they confer are common to the whole nation; and instead of tracing the distribution of their returns, we have to examine the allotment of their cost.

The *division of labour* is the first of these. Hitherto this auxiliary to production has been treated as a matter of detail, a mode of applying labour merely; but it is in reality of primary importance, and forms the principal source of all the complications of our subject.

It is not alone that it implies a classification of workmen in a single manufacture, by which an increased and improved production is obtained, but that it means a continuous and successive division and sub-division of processes, by which every article that serves to aid in the production of other articles is in itself a completed stage, with its own sub-division of labour. To the minutest degree, every individual becomes a one-articled producer and a many-articled consumer. His contribution is thrown

into the general whole, he gets his medium of exchange, and again from the general whole selects the manifold supplies that gratify his wants in proportion to the means at his disposal.

The division of labour brings about the division of capital. This constitutes the distinction between landlord and tenant, between shareholder and manager, between borrower and lender. It creates rent and interest, as distinguished from profit and wages. It leads to the multiplication of machinery, and to its endless inventions and refinements. It produces dexterity and skill in the artisan; it saves his time, and stimulates his ingenuity in making improvements. It enables workmen to be classed according to their natural capacities for different functions, and allows of the perfect combination of separate processes to one end. It is the fundamental principle of foreign trade, by which the division of Nature's gifts is made subservient to the universal benefit of humanity. It is at the basis of all cheap and effective government, whereby local wants are under local supervision, and justice and protection are brought to every man's door. It is a characteristic of the best systems of training and education, which fit the rising youth of each generation for the separate places they are to fill. It pervades all society, and gives a colouring of its own to every department of life.

And for every individual there is provided his own reward—to the landlord, his rent; to the farmer, his profit; and to the labourer, his wages. The capitalist receives his return in fixed interest or

net results, or in profit which his own ability has secured for him. The artisan gets his share of the produce, the overlooker and the employer get theirs, and from the contributions of them all, the security, the freedom, and the peace of the commonwealth are maintained, and the coming generation is prepared to take the place of those who are passing away.

The division of labour is in all respects self-acting. In this it differs from the other auxiliaries. No body of officials is required to maintain it in working order, as the competition of capital, and the stringent conditions of success in producing wealth, secure its adoption to the utmost possible extent. On the other hand, its benefits are distributed in the process of its application. There is no proprietorship in it by which individuals can claim their specific share of the returns.

CHAPTER IX.

The second auxiliary: Protection to Property—Its scope defined—Division of Labour in effective government—Principles applicable to the assessment and collection of Taxes—Distinction between Local and National Taxation—Dr. Adam Smith's rules—Equality among Citizens—Principle of assessment in Local Taxation—Aims and methods of National Taxation entirely different—The Income Tax and some of its peculiarities—The objection to equality of rate on realised and professional incomes discussed—Nature of the proposal to graduate the Income Tax.

WE now pass on to consider the second auxiliary, namely, *protection to property*. By this we mean full security against outward attack, as well as internal disorder and encroachment, or interference with the prosecution of legitimate enterprise. To show the importance of this auxiliary, we have only to remember that there are countries, such as Turkey, where Nature's gifts and man's labour are abundant, but where capital is hidden and production strangled, simply for want of protection to property. The subject has wide ramifications, and requires a generalised survey of the principles of taxation and of economical government, also of national debts and undertakings; keeping in view throughout their influence in assisting the production of wealth, and the degree to which fairness and justice can be attained in allotting the contributions to their expense.

The system of government in our own country,

which is the most convenient and appropriate for general survey, is based upon a modified division of labour. There is an army and navy for external defence, and a body of police for maintaining order within the various districts of the land. All subordinate matters affecting local interests, and the maintenance of peace and justice between man and man, are left for adjustment by municipal or local authorities and magistrates; whatever affects the larger masses and general body of the community is reserved for the national government, or for the central courts of justice. The aim of the whole system is, or should be, to seek the best methods of maintaining security for the just rights of every man, with as much facility as possible for freedom of individual action. It depends for support on the voluntary co-operation of all who are responsible members of the community, by which every one may have a voice and take an active part when called on. It is of primary necessity that each individual should pay his proper share of all the expenses of the government, seeing that the officials in its employment are as necessary to the security of production as the watchman is to a factory or the inspector to a coal mine.

Let us first consider the important problem, how best to allocate and collect the proper share of each person towards these expenses; and, in the course of our enquiry, we shall require to touch upon the incidence of the taxation imposed—that is to say, the circumstances which tend to throw the burden more upon one class than another, or upon articles that

are being consumed rather than on articles that are being produced.

In commencing our enquiry as to the proper method of taxation, we have to mention several well-known axioms which were originally stated by Dr. Adam Smith in his famous work already referred to. These are—

First, That taxation should be imposed as equally as possible, according to the ability to pay.

Second, That it should be at a fixed and previously known rate.

Third, That it should be so adjusted as to give the most economical return to the Treasury, as compared with the amount taken from the tax-payer.

Fourth, That it should be collected at the time most convenient to the great body of those who pay.

There is another axiom, not included here, which deserves to be added to the others, and to be steadily maintained so far as practicable, namely, that there should be no taxation without representation.

It is often assumed that, as the amount of taxation paid by individuals varies according to their means, their influence in the election of representatives should also be more or less. This is inaccurate to a great extent, as nearly all general measures affecting the entire nation touch upon interests that are alike important to each individual. A poor man has as great an interest in the protection of his person as any rich man, and is equally interested in those laws which affect his family and their freedom of action; he is also on a footing of perfect equality in the demand for justice, and in the liability to serve personally in

defence of the country. When citizens are combined in one commonwealth, the measures that affect them equally far surpass in importance those which affect them unequally. An exception may be pointed to, and justly acknowledged, in such a case as the administration of funds for the relief of the poor, where the binding regulations are laid down in common council; but the body appointed to dispose of the funds is elected on a principle which gives most influence to those who supply most of the means.

On the ground that there is an equality among all citizens, independently of their larger or smaller contributions to the national income, it is usual to advocate the imposing of a small tax on each individual, which would be akin to the nature of a poll tax, in recognition of this primary duty and equal relationship to the country. That is the ground on which the Customs duty on tea is sometimes defended.

The assessment of local taxation is based on different principles, and its collection is by a different method from that of national taxation. In the former case, the assumption is made that a householder's rental is the most reliable and obvious way of estimating his general rate of expenditure, and this is taken as the index of his ability to pay. The principle is too rigid and uniform to be at all accurate in the infinite variety of cases that have to be dealt with; but no better substitute, taking all in all, can be found.

In national taxation, that principle is left aside

entirely, and a variety of methods are used in order to gain a number of different ends. For example, while local taxation is direct—paid by cash handed over to the Exchequer—the great bulk of national taxation is indirect, and paid in the course of business transactions. Again, the principle is maintained in national taxation, that luxuries should be taxed in preference to necessaries, by various imposts which recognise no difference between rich and poor. This principle is carried still further by special taxation on such a luxury as strong alcoholic spirits, which have an injurious effect when freely used. Another important object is sought to be gained by laying stamp duties on all transactions that embody contracts or agreements. This impost enforces care and accuracy, thereby saving litigation; and as such transactions are assumed to be beneficial to both parties, the opportunity is considered to be a proper one for enforcing a payment to the State. The probate, legacy, and succession duties recognise the fact that the transfer of the wealth of a deceased person is an arrangement depending for its validity on Government recognition, and resting on principles of national benefit quite as much as of individual right. These duties are arranged on a graduated system, which increases the duty in proportion to the remoteness of kinship.

Passing over various other subordinate aims that are kept in view by the national assessments, such as licences and registration duties, which are intended to regulate and control matters that tend to become injurious if left to their own free action, we come to

speak of that item of taxation which has created perhaps the greatest conflict of opinion, namely, the Income Tax. It is a mode of levying payment which could not be imposed at all in most countries, and in none without some measure of demoralisation and deceit. It should always be remembered that the difficulty of imposing a heavy Income Tax in America, and probably also some other countries, where it has become traditional usage to meet the national expenditure by Customs duties, is a chief cause of their preference for Protectionist legislation.

Nevertheless, the Income Tax is regarded as in many respects the nearest approach to a perfect system. By its mode of assessment in this country, it leaves untouched all incomes which only supply the necessaries of life. It relieves to some extent those emoluments which secure only modest comforts and luxuries, and is adjusted upon a roughly graduated rate up to a certain point. Beyond that point, the payment is in uniform proportion to the income, so far as that can be ascertained. Besides these theoretical merits, it has the practical recommendation that it leaves all the other forms and purposes of taxation without interference, and is reserved as a subsidiary or marginal tax, which can be drawn upon to any extent necessary for making up deficiencies.

Two of the most important questions that are agitated in connection with the Income Tax are these:—First, as to laying it equally on realised and professional or trade incomes; and, second, as to charging a constantly increasing rate on ascending grades of wealth.

The first question may be best considered by looking at it in the case of a person who pays a similar amount on both kinds of income—which of them will he feel to be the heaviest tax? The probability is, that he will declare it to be that which he pays on his receipts from realised property. If he has acquired it by his own savings, he has already paid duty on them as they were earned, and they are now subjected to a second imposition. Besides, a year's professional income is felt to be much more easily acquired than the same amount drawn from long and painful accumulation. Again, when the time comes that he has to give up his professional income from increasing infirmity, he probably feels that he would very gladly pay the tax on that portion also, if he were only able to earn it. It should not be forgotten that no one foregoes the acquisition of a professional or trade income till its pursuit becomes a greater sacrifice than its loss. Therefore, he who pays no duty on such addition to his means is in that position because he cannot conveniently earn it, and would gladly enough pay the tax if he could surmount the inconvenience or difficulty of gaining the income.

The case is very strong against charging an extra rate upon incomes realised from the individual's own savings; but what is to be said regarding incomes derived from inheritance? First, that that inheritance was the result of saving by a previous owner, and the accepted laws of the country put the successor to property in the shoes of his predecessor. Second, that such inheritance has already paid in

advance a very heavy Income Tax in perpetuity under the form of probate and legacy or succession duty. Third, if enough has not been paid in that form to put the inheritor in the same position as if his inheritance had been his own savings, then let an addition be made to the duty paid on receiving it. That method would be much more in harmony with the spirit of the laws of this country than to make a differential Income Tax.

The true reason why such a proposal is made, will be found in the idea that the person who receives his income, or part of his income, from a source which is secure to him for life, is at that moment far better off than the person who receives the same amount by hard-won earnings; and the prompt inference is that the former should bear the chief burden of the taxes. But if taxation is to be imposed on that basis, then it is not the ability to pay, but the bodily ease and freedom from anxiety with which an income is obtained, that constitutes the first rule of taxation. It is unnecessary to add that this would be impracticable.

The Income Tax, like all other taxes, is only approximate in its fairness, and is open to several objections, but the strongest of these is not that which has been discussed above; it will more probably be found in the premium which is given to deceitfulness, and the temptation for many persons to evade or suppress the truth in their returns.

The second question raised is as to the propriety of imposing a graduated rate on ascending incomes. This idea points naturally to a limit at which the

taxation would absorb the additional receipts. An objection is sometimes made to the proposal, on the ground that it would discourage saving and good management—nay, even that it would so limit the accumulation of capital as to interfere with the extending demand for labour. But these objections would apply much more strongly if the graduated scale were laid heaviest on the moderate incomes, whence the greatest supply of savings and capital is derived. It is not at them that the proposal is aimed; its real purpose is to get hold of the highest incomes, and to check the accumulation of enormous properties, which are believed to carry with them too great a balance of power in a free state like ours. These are so limited in number that the economy of the question is only slightly touched, and thus it passes into the region of Politics rather than that of Political Economy.

CHAPTER X.

Indefiniteness of the principle, "ability to pay"—The incidence of Taxation thrown on Consumption—The case of House Owners—Peculiarity in the incidence of taxation on Land—Reason of manufacturing commodities "in bond"—Government protection extended to Workers as against Employers—Required also by Workers as against one another—Protection to the community from strikes in public services—Governments regarded as capitalists.

THE central principle of all taxation is expressed in the words "ability to pay," a phrase so vague and undetermined that it is continually used in different senses. No agreement has yet been come to as to what it should mean, and it appears impossible to frame a definition that would be applicable in all cases. How shall we decide, for example, on the amount of taxation to be laid on a bachelor, and a married man with a family, according to their ability to pay? The principle is, in reality, so variable, that no mode of taxation can exactly meet its requirements, and even a multifarious system of counter-balancing duties can only make a rough approximation to justice.

The incidence of taxation refers to the individuals who primarily or ultimately bear the burden of the tax. For example, the duty on tea is paid by the merchant in the first instance, and by the consumer in the end. The primary incidence of all taxation is

on the individual who pays it; but he inevitably and invariably seeks every opportunity he can find to shift it. Thus, if taxation in any way affects the cost of production or distribution of a commodity, it will be included to the utmost possible extent in the selling price of that commodity. This is evident with regard to such articles as spirits, tobacco, tea, and wine. Even the poor-rate on a dwelling-house or warehouse, of which the landlord pays one-half in this country, tends eventually to be shifted over on the tenant, as the landlord is guided by the *net* returns in undertaking to buy or build house property. If a duty were put upon the wood of which houses are partly built, this would be equivalent to a perpetuity tax paid in advance by a lump sum; and, if it amounted to £100, would only be worth £3 10s. 0d. a-year to the Government, while the burden laid on the tenant would probably be £10 a-year. This is a suitable illustration of the injurious and uneconomical effects of imposing taxation on any process or element of production, especially if the commodity produced be enduring in its nature. The taxation which cannot easily be shifted to other shoulders is that which comes directly out of expenditure or ultimate consumption; such as the income tax, the municipal taxes, police rates, and water rates. But there is one marked exception to the tendency of taxation to rest eventually on consumption, and to be an abatement on expenditure: it is that which is imposed on land, or any natural agent which returns a rent. According to the abstract theory of rent, it has no influence

in fixing the value of the produce, but being in itself a remainder, after payment of labour and other expenses, taxation will be added to these expenses, and leave so much less of a surplus to be handed over to the proprietor. Thus the theoretical teaching undoubtedly shows that such taxation is shifted, not upon the consumer, but upon the landlord; and illustrations of the fact are taken from the payment of tithes, and such other dues as are avowedly paid by the owner, and taken into account in estimating the selling value of the ground. It is necessary, however, to modify this statement, by showing that it would not hold good if there were such a strict monopoly and limited supply of land that the food requirements or raw material must be taken from that limited space at a cost represented by the dearest part of it. That was a portion of the Ricardo theory of rent, and, though applicable to the state of matters in his day, is now entirely obsolete and set aside, at least as regards this country. In those times, any additional cost in raising the quantity of food, whether from extra taxation or any other cause, had to be paid by those who required the food, and who could not go to other markets for it. This formed an important element in the controversy regarding the corn laws; it was pointed out, for example, that under their restrictions the import duty on foreign grain, which was required to make up the necessary supply, was virtually paid at the same time on all the home supply, and went directly into the landlords' pockets. Under existing circumstances, the position of the owner who lets or cultivates his land is more

exactly that of one who receives a remainder of the returns from the use of the implement, land, after deducting all expenses and taxation.

As we have seen that, apart from the charges on land, the incidence of taxation is ever shifting over on consumers, and tends to be a deduction from expenditure, it becomes necessary, in fulfilment of the third rule, which demands economy in the mode of taxation, to impose duties on commodities as near to the period of consumption as possible. If they are imposed at an early stage of production, they become much more onerous and burdensome in the end, with no gain to the National Exchequer. For example, if the tax upon cotton goods in India, which is charged at the time they come into merchants' hands there, were imposed at the factory in Manchester, or, worse still, at the ship's side in Liverpool when the cotton was landed, the amount of the tax would have to be carried forward with interest and profit from merchant to merchant, till it might be double its primary amount when paid by the villagers of Bengal or Madras. It is, therefore, an accepted rule that the payment of Customs duties should be deferred till the commodities are required for use; and as they remain under control of the authorities in bonded stores from the time of importation, the duty is only paid at the last moment before passing them into the consumer's hands. In carrying out this principle, various processes of manufacture are carried on under bond, as in the case of tobacco, so as to save outlay during the process, and Excise duties are regulated after a similar fashion.

Those who urge the adoption of direct taxation to the exclusion of all Customs or Excise duties, rest their arguments on grounds similar to those we have just described, and profess to aim at the maximum of economy and convenience to the public.

Thus far we have considered the protection afforded by good government as an auxiliary in production, giving security to property and to international commerce, as well as maintaining the just rights of man and man; we have seen also that the most economical and effective mode of assessing the cost of this auxiliary, is to infringe as little as possible on the processes of production in collecting the money that is required to pay for it.

But there is another aspect of the influence of Government upon production which requires notice. It is that mode of action which protects working people in cases when they cannot well protect themselves. It operates in such arrangements as the limitation of working hours for women and children, the enforced fencing of machinery, the regulations of mines and of shipping; such securities on behalf of the working population have probably diminished the national supply of wealth, but increased the welfare of the people in a much greater degree. To some extent, the same thing may be said of that security which is afforded to working men, in combining to make common terms with employers in regard to wages or working hours. But, on the other hand, the same security may be still more urgently required for protection against the encroachments of fellow-workers; for example, in the case of

apprentices, non-unionists, or foreign workmen, who may find barriers raised by trades unions against the free disposal of their labour. And, not less than either of these, security may be required in matters of public necessity, so as to prevent the action of strikes on the supply of gas or water, the service of railways, of fire brigades, or of the Post Office. It may be perfectly just and necessary to give the public service a security against strikes which should not be given to private enterprise.

The Government of a country is, and should be, a great capitalist. It is continually called on to make extensive permanent improvements, sometimes by its own servants or commissioners, sometimes by lending to local authorities. As a rule, such improvements should be capitalised on terms that would eventually redeem their cost within a single generation. Occasionally an enormous sum has to be spent in war. It is right that only part of such expenditure should be capitalised, and part paid by those who entered into the war. The portion so capitalised should also be redeemed by degrees, as the benefits of a war are seldom long enduring; it is, in truth, a stretch of language to call by the name of capital the money that is so spent.

In poor countries it is often necessary for the Government to undertake such works as would be executed in rich countries by private or local enterprise. The most important of such works are railways, canals, harbours, river and sea embankments, irrigation schemes, &c., all which are capitalised to the fullest amount in such cases, and with little

enough provision for being redeemed. But as these are actually productive works, which give a tangible return in assisting the wealth-producing powers of a nation, they are genuine capital in the fullest sense of the term, and may fairly be treated as a perpetual charge in any country where capital is scarce.

CHAPTER XI.

Third auxiliary, namely, Training—Scope of this agency—The burden of its cost hitherto resting on the poor—Duty of relieving them in part—The modes of Education necessary to promote the production of Wealth—Nature and defects of Apprenticeships.

THE last of the auxiliaries in production which we have now to consider is *training*. This includes the systems of primary and technical education, of apprenticeships and indentures. In England, the necessity of a regular system of training the highest class of artisans has only of late received sufficient attention. The primary necessity of an elementary education for all classes is also a matter of very recent recognition, at least so far as regards the interference of the State. Everything was formerly left to the uncertain action of parents, and the rough and ready system of apprenticeships, while these were controlled by the varying necessities of the family income. The cost of training the rising generation of artisans rested solely upon the working classes themselves. It was a heavy, and to some extent an unjust, burden that was laid upon them. But it has to be carefully dealt with, and lightly touched by others, as an attempt to shift the burden too much would take away the proper responsibility of the parents, and disarrange the family system to an unknown degree.

The steps to be taken are to provide facilities at the joint expense of the public and the individual for supplying elementary, intermediate, and technical education; and from our point of view the last is the most pressing. It is in that department that we are now farthest behind other nations. When it has become the rule, and not the exception, for working lads to attend schools of instruction in the elements of those sciences which are of greatest use in trades and manufactures, the benefits will speedily be seen. The productive powers of the nation in the very highest departments will be increased, especially in those which depend on skill, knowledge, and taste; while even the strong, honest character of British workmanship will be promoted by a higher tone and education among the working population.

Apprenticeships are more regulated by custom than by uniform law or principle. In such countries as America, where labour is in great demand, the conditions of apprenticeship are much less stringent than with us, and a working lad is sooner able to earn his own living. In many trades there is a necessity for indentures, as a learner may for a time be more wasteful to his master's property than useful by his work; and they may even be a benefit to the parents, as the employer can at once (under the security of such an engagement) give more wages than the apprentice may be worth at starting. But indentures are not most common where they are most required, and they are often resorted to for the mere sake of securing cheap labour. Any indenture which extends beyond the period of five years seems

to be objectionable, as being too long for any young person to be kept under such stringent regulations. It may be found that a mistake has been made in choosing the business, or that the trade is being learned under very unfavourable circumstances; moreover, such long and weary servitude destroys the elasticity of hope and enterprise, and induces dishonest attempts to break the contract.

Trades unions ought to exercise a wise and careful supervision over the customs which regulate such matters, but they have done their cause serious injury by selfish attempts to limit the number of apprentices that may seek admittance into any particular trade. Such interference with the liberty of labour, of which they ought to be chief guardians, is intolerable.

The expenditure on schools and schoolmasters, which should be divided in suitable proportions between the public and the individual parents, and supervised by local committees or special officers, is properly drawn from the national funds, and committed to the charge of the supreme Government, although not one of its primary duties. Accordingly, it falls to be added to the taxation of the country, and tends ultimately to be a deduction from the expenditure and savings of the nation at large. But even with such an adjustment of the burden, it should never be forgotten that the cost of training each successive generation of our wealth-producing classes is borne by these classes themselves in by far the greatest proportion.

CHAPTER XII.

Nature of Supply and Demand—The method of their adjustment—Effectual Demand, or the power of exchange—Classification of articles according to the limits of their supply—Reasons for not adopting the usual classification of agricultural produce—Importance of the supply of co-efficients in any country—Great differences in that respect—Constant tendency to excess in production at some points—Modification of that excess by readjustment of price—Limit to the ultimate reduction in price.

WE have now completed our detailed though brief survey of those aids to production which, in conjunction with the stores of material and the vital energies of Nature, supply the requirements of man, and enable him to accumulate wealth. At this point we may appropriately consider some general aspects of the process. For example, we find that wealth is not produced indiscriminately, or without reference to the wants of man, or the proportion that each article should bear to the rest. This is called the question of supply and demand, and we must seek to ascertain how they are arranged.

We are accustomed to hear of a small supply being met by a great demand, and a great supply finding only a small demand, and at these times the level of equality is being sought for by a gradual adjustment of price. In one sense there is a great demand for everything. Poor people have a strong wish to get fine houses, furniture, and jewellery, though they never buy them. The supply of these things could

scarcely be made to exceed the desires of the community. But demand is not merely desire; it is desire with ability to pay, or, we might say, to exchange. Payment is the exchange of one commodity for another by means of money. Hence we get the complete term, *effectual demand.* Effectual demand includes the power as well as the inclination to buy and sell, and it will be of use to remember that buying and selling is really an exchanging of property, or, as it has been well defined, "the barter of the comparatively superfluous for the comparatively necessary." Thus no one can buy without giving as good as they get, and that settles the question of why poor people don't buy fine houses or furniture.

Effectual demand rests upon the wealth or means of individuals, and when they are classed according to that measure, there is a gradation formed something like a pyramid. The top of the pyramid consists of the few millionaires, who possess effectual demand to the very highest degree. As we come downward in the scale, the numbers increase, the pyramid widens; we pass in regular course from those who possess effectual demand for luxuries to the greater number who only procure comforts; from these we come down to the widest range of all, those who only get necessaries. This is not quite the base of the pyramid, although it is its widest part. There are still below these a number who cannot even procure the necessaries of life, and who spend a miserable and shortened existence on supplies that do not meet the wants of nature.

We can now understand how the supply of commodities, which is a matter of numbers or extent, is made to find out, with the aid of price, a point of equality with the numbers and extent wherein lies effectual demand. We must endeavour to keep this broad view of the subject constantly in our minds.

It has been usual to divide the supply of commodities into—1st. Those which are strictly limited, such as articles of antiquity, and objects that derive their value from belonging to the past. 2nd. Those which are of unlimited supply, but with an increasing cost and difficulty attached to more extended production; of which the produce of mines, and of agricultural labour in general, were supposed to be leading examples. 3rd. Those which are unlimited, and producible at a diminishing cost in proportion to their increase. This was intended to include all articles of manufacture.

Articles of the first class—those which are strictly limited in supply—find their level of demand by the combined effect of their actual number and their intrinsic desirability or preciousness. For example, a certain kind of precious stone may rise to a very high price till a large quantity of it happens to be discovered, and then it comes to a much lower level. This may prove to be the case with diamonds, as a result of the discovery of the South African mines. Or, again, there may be, in a collection of curiosities which do not usually bring a high price, some one or two so desirable that none but the richest can buy them. This happens occasionally with pictures or rare fossils.

Articles of the second class have been separated from those of the third by a distinction as to increasing cost of production, which has virtually disappeared. The increased proportionate cost of extended mining operations is doubtful as a general fact, and not of sufficient importance to place it outside of the ordinary rule. As regards the production of food by agricultural labour, the demand for additional supplies has so stimulated the invention and enterprise of those employed therein, that they have achieved as great a success in reducing cost and increasing production as the annals of manufactures can show. The improvements in agricultural science, in chemicals, in manures, rotation of crops, breeds of cattle, and other details, have revolutionised the position of those who cultivate the soil, and abolished the distinction that rested on a supposed limitation of their powers. Every rood of soil is a machine, which is capable, under scientific management, of more continuous and permanent productiveness than any construction of wood or iron; its main drawback is, that while the artificial machinery can be multiplied within a small area, or piled aloft in a single building, the machinery of Nature can only be increased by lateral extension and the taking in of new regions. On the other hand, the difficulty of increasing the labour supply hampers production quite as much as the difficulty of extending the land supply. We therefore regard all commodities, save those already excepted, as capable of unlimited supply, in proportion to the effective application of the various co-efficients.

Proceeding on this basis, we observe, first, that *the*

production of commodities in general will be limited by the co-efficients that are available. Of course there cannot be too much production of wealth, if each article be adjusted in quantity to the rest. It is difficult to estimate the comparative turn-out of different nations. It is easier to see to what extent each nation lays itself out to procure foreign commodities, by noting the quantity of exports it sends out in payment of imports. Much of that exportation from the United Kingdom would probably be done away with if, like Germany, she had an ample range of soil on which to grow the food required for her population. That co-efficient which we have placed first in the list is defective in this country, so far as Nature's vital energies are concerned, from want of surface on which they could be developed. But so far as Nature's stores of material and motive forces are concerned, they are superabundant. As to the labour-saving contrivances and capital, we have an ample share; but in labour, as in extent of soil, we are at a disadvantage. Our resource is to draw upon the soil and labour of other countries, and give them the products we can most easily supply. We get them to grow food and raw material, such as cotton, flax, and wool, as well as grain and live stock, for us; while we send them the woven fabrics that are made out of their materials, and other products of our own besides.

We observe, secondly, that *each commodity tends to be limited in its production by the extent to which it can be exchanged.* No article is absolutely superfluous, but only comparatively so. Whether production is

general be great or small, there is a constant tendency to produce some articles in excess, and either these must be exported, or that excess of producing power must be thrown into other channels till a general level be again attained. Whatever commodity shows an extra profit on its manufacture will attract the capital (whether it be much or little) of the country, till in all probability it reaches excess; or if the movement stop short of that point, it is only by directing the flow elsewhere. Production is constantly pressing on its limits at some point, whether that production be scanty, as in a poor country, or abundant, as in a rich country; and it requires to be checked or sent into other channels, so as to maintain the easy and prompt exchange of every article. The exact adjustment in quantity of all commodities at the same time is the point of equilibrium which is often touched, but never rested on, like the point of the compass to which a vessel is directed in its passage across the ocean.

We observe, thirdly, that *the supply of a commodity may be in excess for a particular class of people*, for a certain rank or line in the graduated pyramid of effectual demand; in fact, it may be absolutely superfluous in quantity for that rank, while it is only comparatively superfluous for the rank below it. If the price be reduced, it changes from being comparatively superfluous to comparatively necessary for the lower rank. Thus there is always an outlet for excessive production; bring it to the lower level of effectual demand, and the wider range of numbers absorbs immediately the additional quantity. Ac-

cordingly, we find that manufacturers are always trying to make their goods cheaper, either by ingenuity and enterprise, or by reducing the quality so as to find the lower and wider range of customers. Again, if there happen to be an insufficient supply of any commodity, it finds its level in the rank of consumers by a higher price; and if there be no counteracting circumstances, the greater profit then obtained will instantly cause a flow of capital to that manufacture, and so reverse the movement. Articles of limited supply are always being forced up into a higher grade of effectual demand, while articles of unlimited supply seek continually a lower and wider range.

There is a very effectual limit to the downward range of prices at which commodities can be sold, and that is the cost price. *Cost price is the amount that must be paid for the use of the various co-efficients in production.* These will be cheap or dear according to their abundance. There are few countries—and they would be very unproductive ones—in which they are all deficient; and there are few countries in which they are all abundant. America is deficient in labour; England in labour and land; France in motive forces, and probably land also; Germany in capital and machinery; Turkey in motive forces, machinery, capital, division of labour, good government, and educational training. It has nothing but land and labour.

In countries that have good government and free communication to all parts, every co-efficient finds a rough level of value for all purposes. In England,

the proportionate fertility of land is at a price nearly equal all over, and so also are the rates for labour and capital. Thus if any commodity be largely made up of raw material drawn from the produce of the soil, the price of that co-efficient is already fixed by other demands, and cannot easily be modified. It is the same with every commodity, and with the various items of their cost. These are regulated by influences derived from other manufactures, and it is only when many such influences co-operate in a downward direction that the expense of these items can be reduced. Thus it is only as a result of various combined causes, of which the large supply of food stuffs from America is one, that the value of land in England seems at present to be lowered. It was only by a check on the demand for iron and railway material, from many different quarters, that the value of labour was reduced a few years ago. The same combined restriction on those trades which reduced the prices of their produce tended to make all machinery cheaper. But, at a given time, the ordinary cost of any of the agents of production for commodities in general fixes its cost for any specific article. These facts show us how largely cost prices must rise and fall together. We have already seen, in discussing the rate of wages, how difficult it is to bring down other items of cost when a fall occurs in selling values, so that every employer seeks at once to put the pressure on labour, and save himself by reducing cost in that department. Hence the so-called conflicts of labour and capital.

CHAPTER XIII.

The saving of Wealth—Limits to its possibility—Former methods of saving—Characteristic of modern method—Great outlets for Capital now partly closed—Present and future outlets likely to be comparatively limited—Consideration of the nature of these means of utilising savings.

AMONG a frugal and thrifty people, it is regarded as a matter both of duty and custom to provide for the future; and, in our own country, any young man of capacity and education who should fail to make good provision for old age, and for the comfort of his family, would be regarded as having been a failure in his career.

During the present century, the encouragement to thrift has been much greater than in any previous period of the world's history, or than it is at all likely to be in the future. Formerly there were very few methods of accumulating wealth. The most important was the possession of land, or, in very distant times, of slaves. In later periods, the hoarding of coin was a favourite mode. But of late there has been developed an extensive and elaborate system of turning all surplus wealth into capital, and from that capital deriving a handsome return. Even the minute fractions of savings have been gathered up, like the filings of gold dust in a jeweller's shop, and turned to account with a revenue of interest.

Capital, to use a former expression, has been dis-

solved into a fluid, and seeks outlets in all directions. But these outlets, which were formerly wide enough and deep enough to be reservoirs of wealth, have now become filled up in a great measure, and it is in the absence of these spacious receptacles that the difference will be felt by the next generation of investors.

There is in the nature of the case a very strict limitation to the storing up of wealth. Most of the articles of ordinary consumption, on which depend the wealth, comfort, and enjoyment of human life, are incapable of being laid aside for future service. Food supplies for personal use, or for servants and domestic animals, last a year or two; clothing two or three years; personal ornaments or furniture ten or twenty years. Some articles of curiosity may last a century, and so may the house one resides in; but it is a very scanty provision for future comfort to have only a house and furniture, with curiosities and personal ornaments. In order to secure a supply of those articles which serve for sustenance and enjoyment, there must be a store of wealth laid aside in some very different form, which can be relied on to procure for us those necessary supplies as we want them. We find that the more enduring articles of use and luxury are not serviceable beyond their own narrow range, and in searching for the most suitable method in which we can provide for the future, we are driven to rely on those forms of property which are themselves auxiliaries to production, and fit objects for the investment of capital. Even among these some are no longer eligible. Human labour in the

form of slaves served such purposes at one time, but that has now to be regarded as an institution of the past. The land, the fisheries, the mines and quarries of fully settled countries are incapable of extension, so that, though their value may increase in the hands of existing proprietors, no fresh capital (save by way of improvements) can be invested in them. So also, in a great measure, the national debts, that have absorbed capital either for defence or for important undertakings, have apparently reached their maximum for the present. It is not probable that any very large addition will be made to the national indebtedness, either of rich countries or of poor ones, during this generation.

As these receptacles for saved wealth are therefore in a great measure closed up, there only remains as available resources the labour-saving contrivances in roads and machinery, which may yet spread to an indefinite extent over the earth, together with the circulating capital necessary for working them. To these may be added the subordinate departments of house-building, agricultural improvements, the further extension of joint-stock business at home, and such other absorbents of capital as may clip the fringe of national savings.

In England, the case was very different at former periods of history. There were then great tracts of land to be taken in and reduced to cultivation; there was a whole system of railway communication to be established; there were the steam-going navies of the world to be constructed; there were the wide ramifications of telegraphic communication to be

carried out; there were the quays and harbours to be formed which the new railways and steamers required; and, besides all these, there was the enormous extension of home industries to be provided for, which the new means of conveyance and the freer action of commerce called into existence.

These were great hollows that had to be filled up by the overflow of capital; but where are there any more such capacious receptacles now? At present we see none, unless China should be conquered by western ideas, and her land and people become open to receive the gifts of European capital and civilisation. No doubt each country—and some much more than others—has still large available scope for improvements and the outlay of capital in railways and other fixed forms; but most of these are doing something for themselves, and the overflow must now be in comparatively shallow streams, which spread themselves as widely as possible, irrigating the land instead of filling the reservoirs. As regards the building of houses, it is evident that that cannot be a means of using up large masses of capital. It can only take it up in driblets, and is becoming a convenient and ready way of absorbing the savings of working people, who become proprietors of their own dwellings with the assistance of the numerous Building Societies now organised.

Nor is there scope for further extension of the use of capital through bank deposits in these countries at home. Other countries still afford room for a development of this means of economising savings; but with us, bank deposits are already being dis-

couraged by more stringent conditions attached to the payment of interest, and the funds thus placed at the disposal of such institutions are greatly in excess of the demand for discounts, so that bankers are tempted more and more to make their money by investments, which the depositors will prefer to do for themselves.

The extension of joint-stock business in our own country is chiefly carried out at present by the displacement of the large capitalists, and the occupation of their places by numerous shareholders. This change in the organisation of business uses up the small and moderate amounts of savings, but leaves the great masses of capital to seek other spheres of activity. And this is precisely where the difficulty is likely to be felt in future years. These spheres of activity for capital in bulk are disappearing, and in their absence such wealth can only be spread over the existing range of investments, increasing their price and diminishing their return.

In the meantime, the general increase of savings, and the widespread demand for profitable investments, throws an immense amount of the productive energies of our own and other nations into those channels that are concerned with the laying down of fixed capital. Such commodities as railways, steamers, engines, waggons, and machinery are absorbing more and more of the supply of labour in the country. Articles destined for personal consumption are not neglected, but they now form a diminishing proportion of the nation's yearly produce. Such articles are regulated in their supply

by very stringent conditions; the extent to which they can be individually used, in comparison with other articles, is so closely defined, that an increase of any single article is checked at once, unless it has been greatly reduced in cost. But there is no such ready check on the production of commodities in which savings are invested. That forms not only the most important department of industry in countries such as ours, but has an extent of demand much less sharply and quickly defined than other items of production. Consequently, it shows the greatest tendency to excess and derangement from ill-adjusted supplies.

Besides, there is no other commodity, nor class of commodities, that is so liable to a strained and over-estimated valuation as investments. The experience of the present generation shows that every now and again, when circumstances have been favourable for a time, and a good return is being obtained from existing enterprises, a gradual and steady rise takes place in the enormous mass of capital sunk therein. Twelve months of good trade sometimes increases the value of this country's investments by hundreds of millions, and their possessors find themselves suddenly growing richer. Expenditure increases; more hands are put to the investment trades; wages rise; all prices rise; the gregarious instinct of humanity carries people away with a rush, every-one eagerly following the lead of an excitable few, till the crash comes, and the estimated value of the wealth of the nation again sinks as rapidly as it rose. This is the brief history of

half-a-dozen commercial crises during the past fifty years.

It is probable that England, as a nation, is less disposed to frugality and saving than France or Germany, or some other European nations; but the economical use of its savings, by gathering them up in small as well as in large amounts, and turning them all to capital purposes, has been one of the reasons why she has so completely outstripped them in many respects, and especially in her abundant supply of that auxiliary to production. The uninvested wealth that had been stored up in France previous to the Franco-German war was enormous, and served at once to pay the indemnity that was exacted; and even yet there is probably a large stock of coin hoarded away by her thrifty peasantry; but her supply of capital has not outgrown her population to the same extent as in England. The difference between savings that are hoarded and savings that are invested comes to be something enormous in the course of a few generations.

CHAPTER XIV.

Consumption the ultimate purpose of all Wealth—Definition of Consumption—The form of Consumption during intermediate stages of production—Productive and non-productive Labour—Demand for commodities is demand for all co-efficients, and not labour alone—Classification of certain occupations.

THE purpose and end of all wealth is consumption. Every form of it that is laid aside for use or enjoyment, and not devoted strictly to productive purposes, is regarded as consumed. A gentleman's residence, his carriages and horses, his yacht, his pleasure-grounds and garden, even his pictures and curiosities, although they lose nothing of their value by being used, are distinguished from wealth that is capitalised or hoarded, and classed with ordinary articles of daily use.

Consumption may be quick or slow; it may be the eating of a fish in the evening that was taken out of the sea in the morning, or it may be the wearing of a jewel that has flashed its radiance on successive gazers for hundreds of years. Consumption is that ultimate use or enjoyment of wealth, with a view to which every commodity is passed from hand to hand, and from stage to stage, in its unfinished state; every article that can be made serviceable, is gathered from the remotest sources, and used to assist in the process, till, after combinations and recombinations that go on for years, the

finished production is at last brought to the door of the individual who may eat, drink, or enjoy it.

Such at least is the process in highly organised communities; but among the freedmen of Jamaica, or the unsophisticated inhabitants of the Sandwich Islands, production and consumption may be summarised in the act of pulling the fruit and wearing the leaves that Nature ungrudgingly supplies to an easy-living race.

There is a form of consumption, in an intermediate stage whereby some articles are made subservient to the preparation of other articles, which is properly classed with distribution and production. All the various conditions of progress in preparing commodities, each of which is a finished stage for the time being, and requires merchants to scatter and distribute it, are simply divisions of labour; and such distribution is a process that goes on through all the cycles of production, from the earliest preparations for supplying raw materials, to the last stage of passing the finished article into the consumer's hands.

Every process of distribution and production is dependent on the services of labour, used as a co-efficient for such purposes. This is usually called productive labour. But the consumption of wealth is associated to a large extent with what is called non-productive labour. Non-productive labour is wealth capable of being bought and sold, or turned to account, quite as much as the other. It is in no sense less useful or beneficial to the community than productive labour; the whole difference is in the

point of time at which it is made serviceable. Those who are combined to bring an article into a condition for use are *producers*, who give their services indirectly; those who are combined with the using of the article do not *produce*, but give their services directly. A coachmaker produces a coach, a coachman drives it; a collier produces coals, a servant puts them on the fire; a silk-weaver produces ribbons, a lady's maid arranges them on the dress. The difference is simply in the stage at which the service is rendered. People are so much influenced by the associations of words, that the phrases "productive" and "non-productive" have been made the grounds on which theories have been built as to the economical use of labour, and the social regulations that promote the accumulation of wealth. Non-productive labour was thought to be squandered labour, which might have been beneficial had the community not been deprived of it. There is no foundation for this idea in the mere fact that a definition is made of the point of time at which services are rendered.

All wealth is for enjoyment, whether it be in the form of services or of commodities; and the more of such enjoyment that a community can obtain, it is the richer for the time being. Extreme frugality, which lays everything past for future use, is present poverty. That does not touch the question of how people can most wisely divide their riches between present and future enjoyment. But there is an almost universal impression that the man who consumes most freely, and spends his wealth in a conspicuous manner on services and commodities,

does the most good to his neighbours. Strictly speaking, this is a mistake, for he is thereby using up existing wealth, whereas he might be turning his means into capital, and in that way producing more wealth. But in the latter case, the process might be carried on at a distance, and his neighbours neither see it nor feel the benefit of it.

There is an old axiom of Political Economy which states that a demand for commodities is not a demand for labour. The meaning of this was, that labour is in direct relationship with capital, and not with consumption; and we may add that a demand for commodities is in reality a demand for all the co-efficients of production, capital and labour included. The inference to be drawn was, that a lavish individual expenditure is not such a benefit to the working classes in general as a turning of that expenditure into capital, wherein lies the real demand for labour.

One of the disputed questions of former days was about the classification of non-productive labour, and whether it should include schoolmasters, soldiers, sailors, policemen, judges, and other such necessary functionaries. We have no difficulty, according to the simple system adopted in these pages, in classing them under their proper divisions as auxiliaries to production. Non-productive labour is with us simply a service rendered direct, and not embodied in a commodity. It includes the wide-spread class of domestic servants, of artists, of the members of the different professions, and many of the most valuable and distinguished citizens of the community.

There is a sense in which all the co-efficients may be separated from productive purposes, and used directly in consumption, the same as labour. For example, the grounds, the garden, the yacht, the fuel, and other things that are used by their possessor, bring into requisition the vital energies and stores of Nature in a non-productive way. Again, the railway system of the country is perhaps as largely turned to account for the one purpose as for the other, and labour-saving machinery is used on a home-farm and in various small details. In all these matters our classifications are ideal, and do not imply separate and absolute divisions. They are used as a valuable aid to the mind in grasping a single portion of a subject at once, and so enabling it by degrees to acquire possession of the whole matter.

CHAPTER XV.

Free Trade—Presumption in its favour—Interfered with, *first*, for purposes of Supervision; *second*, for necessary Taxation—Circumstances which warrant this mode of Taxation—*Third*, for protection of native industries—Two opposite opinions on this point—Position of those in its favour—Free-trading tendencies of Englishmen—Position taken by them—Test case of the Sugar Bounties—Results of change in our Policy—Other subordinate considerations—Independent position of the United Kingdom—The secret of Protectionist Legislation.

THERE is one topic which does not necessarily arise out of our previous considerations—being a question of Policy rather than of Political Economy—and which has been abundantly dealt with in a variety of separate and complete works during the last few years—namely, the question of Free Trade. But although these circumstances might have been sufficient reason for leaving that subject untouched, yet it is so obviously one of the points in which business people take a deep and personal interest, and is so much a matter of keen discussion at the present time, that we must of necessity refer to the leading points in the controversy.

Freedom of trading is liberty to take the advantages bestowed on us by Providence, by sharing and dividing, on mutually agreeable terms, those various benefits which have been scattered among different countries and different races. It is the liberty of making exchanges of wealth according to our needs and desires, of giving and taking with all and sundry, irrespective of any considerations as to the nation or

land they may belong to. Probably no one will deny that the presumption is in favour of unlimited freedom in trading, and against all interference with it by duties, charges, or prohibitions. But it does not bring us much nearer a conclusion, merely to find that the burden of proof in self-justification lies with those who encroach upon this natural liberty. As a fact, there is scarcely such a thing as absolute freedom in trading between any two separate nations on the face of the earth.

The various claims to interfere may be based on either of three different grounds—*first*, that of regulation and control; *second*, that of contribution to the maintenance of the State; *third*, that of assisting or protecting from competition some branch of native industry.

The first of these grounds of interference is of course presumably just and necessary in all cases. It is represented by those frontier regulations of every kind, which supervise and take account of the commodities which pass in and out of the country. It includes all systems of inspection and quarantine, by which injurious compounds or infectious diseases may be prevented from spreading their evil effects; and thus it is to be regarded as a means of defence from serious calamities. It also aims at checking or minimising such traffic as may have pernicious results when left absolutely free, such as the importation and transmission of firearms, opium, alcoholic spirits, and such articles as cannot altogether be dispensed with, but which may be judiciously burdened with heavy duties in order to diminish their use.

The second ground of interference, namely, that of contributing by taxation to the support of the State, is also presumably necessary, although open to question, both as to its economy as a mode of taxation, and also as to the true spirit and motive with which it may be carried out. We find that, especially among nations which are thinly scattered over the soil, and more or less incomplete in their political organisation, the method of procuring Government supplies by Custom-house or frontier duties is one of the least obnoxious and most effective. Such, for example, was the condition of the United States of America after their separation from the mother country; and this method of taxation, which was largely adopted by them at that time, has outlived the conditions under which it came into force. Moreover, when the preliminary expenses have been incurred, which are necessary in making complete and effective arrangements for such a mode of raising funds, the burden is slightly felt by the consumers, on whom it is ultimately placed; the process is a hidden one, and the "ignorant impatience of taxation," which is so natural to every man, is not irritated by direct appeals to his pocket.

Although it may be true that there are many forms of taxation more economical than that of Customs duties, it has never been accepted as a principle in any country that all such duties should be abolished. There is still much to be said for them in various respects. For example, if there be no silk manufactured in America, no wine produced in England, and no beer brewed in India, it seems a simple

matter and a fair charge to lay a tax on those who indulge in such luxuries, at the moment when it can be done most economically. Every penny drawn into the National Exchequer from such sources is of the nature of a voluntary contribution, and is free from the harshness of an unequally imposed burden, while it is sure to receive the approval of those who only indulge sparingly in such articles.

When the supply of any commodity is entirely derived from foreign countries, the duty imposed on it is, properly speaking, a fiscal rate, of which the proceeds come entirely into the National Exchequer, minus the cost of collecting it. If the commodity be partly of home and partly of foreign supply, as alcoholic spirits are in England, an Excise duty on the home produce, equal to the Customs duty on the foreign importation, makes the taxation on such a commodity also a purely fiscal charge. But if there be no Excise duty imposed upon this kind of commodity, then the Customs duty becomes a protective rate, and the proceeds, when estimated upon the whole quantity of the article used, are divided between the Exchequer, which gets the allowance on the quantity imported, and the home producers, who get the allowance on all that they are able to sell. If the protective rate be so high as to exclude all foreign importation, then it is a prohibitive rate, and the Exchequer gets no share whatever of the proceeds. The distinction between a purely fiscal charge and a protective or prohibitive rate is of great consequence.

One of the strongest influences which tend to perpetuate the system of Customs duties, is the difficulty

of finding other methods of taxation which are equally inoffensive in their operation. Thus it happens that, independently of all abstract theories of economy, it will never be an easy process to lay aside any mode of supplying Government funds which is in smooth working order, sanctioned by long usage, and hidden from the direct view of those who ultimately pay the money. It is only among highly organised commercial nations that other methods of operation can be brought into play, such as stamp duties or income-tax, by which it may be possible to displace those indirect charges which are found occasionally to be injurious. And thus it happens that the freedom of trade is continually being sacrificed to the necessities of the State. So much must be granted as an indispensable concession; but it is under cover of these necessities that a large part of the mistaken and short-sighted legislation is carried through, which favours separate classes at the expense of a whole people.

The third ground of interference with free trading is the real point in dispute on this question. As to the others, it may be assumed that the principles on which they ought to be based have been agreed to by all parties. This point, which is so keenly contested, is the practice of affording assistance to some body of traders or producers, by granting them subsidies, or levying rates on the goods of foreign competitors. It is thought by those who favour this practice to be the duty of a Government, not only to protect the industry of the people from armed invasion, but also from external competition;

and this opinion prevails over a large part of the world. The idea is, that all possible production should be carried on within a nation's own frontiers, independently of the natural obstacles that may stand in the way at first; and, further, that the paying away of money for foreign manufactures, or even the exchanging of native produce for them, is an evil to be prevented by the most forcible regulations. On the abstract merits of the question there seem to be but two opinions—one is, that all such protection is an evil, while, according to the other, it is a benefit. The former is that held by a large majority of Englishmen, and very few persons elsewhere; the latter is that held by certain limited sections of Englishmen, and nearly all the rest of the world.

It happens that the majority of Englishmen arrived at their conclusion after one of the most remarkable efforts of propagandism that has been known in recent times, and their adhesion to the opinions thus arrived at has been wonderfully decided and tenacious. It is now a most perplexing and incomprehensible thing to them, that what seems in their eyes a clear and certain truth, should by all other nations be ignored and repudiated. They get angry and vindictive at the stupidity of those who oppose and resist their teaching; but it is easy to account for both views of the matter, if one can only get to the respective standpoint of the different parties, remembering, at the same time, that the view of each derives much of its distinctness and limitation from the personal interests which guide its vision.

Those persons in other countries who take a different view from that which prevails among us, see clearly from the example of England, and from daily experience, that it is a great benefit to any country to have manufactures established in it. They know, also, that manufactures are very difficult to establish if they have no existing basis to spring from. So many favourable things, such as motive power, raw material, human labour, and suitable machinery, have all to be combined, that it is not every person in a young or backward country who will risk his means in such uncertain enterprises. But the greatest difficulty of all arises from competition. Remove that, and the rest may become easy. Hence the first thought is to charge a duty on every article of foreign manufacture for the benefit of the State. That serves two purposes: it puts money into the National Treasury, and it gives a chance to those enterprising pioneers whose efforts are necessary to the establishment of beneficial industries. England may remonstrate, as she is under the necessity of spreading her manufactures everywhere; but the outside opinion is, that no weight need be attached to her declarations in favour of free trade. She is obliged to give free importation, as nine-tenths of what she receives consists of food and raw material, which are essential to her existence. These must be purchased by her manufactured articles, and thus she needs an open door for them everywhere. England is regarded as crying out for free trade simply as a selfish necessity, on account of her peculiar position, with an overgrown population,

and an abundance of capital and industrial resources. Although she puts forward abstract theories, showing that all import duties which protect native industry take money out of the pockets of the whole people and bestow it on a favoured few, and that it is only an article which must be all imported, and all returning a contribution to the Treasury, that can be regarded as in any sense a proper subject for taxation; yet all these arguments are regarded as similar to those which were used by the fox when it had lost its tail, and wanted the other foxes to have theirs cut off as well. They are received with suspicion, as obviously dictated by the necessities of her peculiar position.

In England itself there is a minority which sympathises with protection to native industry, and that minority is divisible into two sections—those who seek to protect the agricultural interest, and those who would assist our manufacturing industries. The history of their development has been briefly as follows:—It happened that when the great propagandism of free trade was carried on thirty to forty years ago, a system of protection was in force that had a most injurious and easily proved effect in raising the price of bread. Many other things were protected as well, but that was the part of the system where every blow struck home to the hearts of the people, and there the chief breach was made by the abolition of the Corn Laws, after many other points of defence had given way. The success of the attacking party was so complete, and the great bulk of the nation was so heartily

converted to free-trade principles, that, during the period of prosperity which has elapsed since, the protectionists had shrunk out of sight almost entirely. A reverse of circumstances has called them into prominent notice once more, and the position of parties is now somewhat as follows:—A small section of the old agricultural protectionists cry out for some means of defence against the overwhelming imports of food stuffs. They remind us that theirs is the greatest of all the industries in this as in every other country, that it contains the bone and sinew of the population; they point to that superior class of proprietors which has long made England great and famous by their nobility of character, to those yeomanry who have stood firm in every crisis of danger, and to the toiling millions of docile labourers, who, in combination with these others, make up such an important section of the community as should not lightly be driven to despair, or have their position destroyed to the lasting injury of the whole.

Of course this lofty platform is lowered at once by the consideration that, though the agricultural industry may be the greatest of individual industries, it is in a small minority compared with the whole people, and could scarcely have saved us from starvation during the past year, if we had been dependent on it alone: not only so, but that there is no country perhaps in the world in which the agricultural interest is of less importance than in this.

The other section of our English protectionist minority is composed of those members of the trading

class who feel how provokingly the efforts of manufacturers in this country to extend their trade all over the world are baffled by the protective charges of other states. When repelled by such unwelcome barriers, they wish in their resentment to punish the offending nations, and to lay a corresponding duty on their commodities; thus teaching them, by a stroke of their own whip, what is the nature of the infliction which they lay upon us. These parties regret the present position of free importation to which we are committed, and wish we were in the reverse position of universal protection, so that we might be able to make terms and bargains on all sides as to what concessions we would make in return for concessions granted to us. This they would call reciprocity.

Such is the general position of parties—native and foreign—in regard to this important question. Those who advocate protection and reciprocity evidently speak as they feel; they are disposed to act on the most direct impulse, and for the immediate end in view. Such of them as seek the general interests of their respective countries, where manufactures may be very defective, and who avowedly promote such industries with a view to future rather than to present advantages, have at least the broader ground to stand upon; but those at home, who would apply similar principles to this kingdom, work on a much narrower basis, and even run counter to the opinions of foreign protectionists, who grant that it is very proper for England, in promoting her own interests, to encourage free trade everywhere.

As to those on the other side, who denounce pro-

tection to native industries in all countries and at all times as a mistaken policy, though they have the balance of argument in their favour, and cannot fail to secure the verdict in the end, yet, in the present state of opinion over the world, it is in some cases a self-denying action on their part to hold firmly by free-trade doctrines at any cost, and to repel the schemes of those who advocate reprisals or reciprocity.

Some of the leading considerations which may be adduced in their favour are as follows :—

First, we observe that they hold most consistently to the great principle that the interests of the many should never be sacrificed for the benefit of the few. They do not object to a purely fiscal charge, by which all the proceeds fall into the National Treasury, save on the mere ground of economy in collecting; but the moment that private parties get a share of the proceeds, then their great principle is destroyed, and justice is set aside. If it be ascertained that some particular industry requires assistance, and affords a prospect of repaying in the long run any present expenditure, in such a case they urge that the amount of the subsidy be duly voted and allocated, so that the process may be traced from first to last. To grant subsidies by means of protective rates is working entirely in the dark. But while there may be special industries which, in this or that country, afford a prospect of giving a good return at some period if only assisted properly at starting, they show how impossible it is that all industries can flourish alike, even under such circumstances. There must be some discrimination, as no country is

adapted for every species of production; but the task of discrimination is the great difficulty. They urge, that the only true mode of effecting it is to let those industries which can most easily take root in the soil show the fact by their spontaneous activity. If there be any natural fitness in the case, it is bound to show itself, as the wants of a people are always responded to so far as circumstances will allow. A statesman may conceive of the idea, and may well be stimulated by the conception, that he can scatter wealth-giving industries of all kinds over the land by the mere arrangements of legislation; but industrial processes do not spring into existence in that way. All the protective laws of the United States of America have not yet enabled them to make their own linen, even although they can grow the flax from which to produce it. But the greatest error of all, on the part of foreign protectionists, is shown to be their disposition to withdraw the population from work which they can do, and do well, to other work which they can only do at a great sacrifice of economy in labour and capital. These are the blunders in the policy of their opponents which free traders see clearly, and ought to maintain at every opportunity. They show that all artificial aids to industry tend to destroy economy, and to interfere with the natural adjustment of means and wants in a community; that indiscriminate protection to industry must necessarily produce expensive failures; that discrimination as to the most suitable kinds of industry is most effective and accurate by letting them show their natural fitness; that, if aid be given at all, it should

be by an amount voted and expended in the face of day, and not by a protective rate which works in the dark, and imposes a fine on the community of which it never knows the amount. Moreover, that every charge upon imported commodities which is not of a purely fiscal character, is a tax laid on the entire consumption of that commodity for the benefit of some privileged parties, and is by its nature a mistake and an injustice.

It happens that there is at the present moment a very fair test case before the public, by which the principles of protection may be examined under the most favourable circumstances conceivable. This is the case of the sugar bounties, which has deservedly attracted much attention, and even in some cases been made a point on which the opinion of Parliamentary candidates was sufficient to win or lose a seat. The nature of this question may be described as follows:—Since the introduction of beet-root sugar on the Continent, great activity has been displayed in the various manufacturing processes connected with that article. In France, especially, this industry has been eagerly encouraged; and though there is an Excise duty on all the home consumption, there is such a handsome allowance made on what is exported as may well stimulate that portion of the trade to the utmost. The duty on the raw sugar is charged at a certain rate at the moment when it is put into the process of refining, and, at the close of that process, the allowance on the refined sugar is credited on all that may be exported in such a manner as to give a bonus of about ten per cent., or £2 to £3 per ton, on

the finished article. It may be assumed that there are five millions sterling worth of sugar imported yearly into England, from various continental countries, which has been thus bounty fed; and as there must be at least twice that quantity used, of which the price is regulated by the cheapened importations, we have thus a boon given to the nation of a million of money, and perhaps much more, on that one commodity. One-half of the amount must actually come out of the taxes paid in foreign countries; but the bulk of the people do not see the process, and their legislators are seduced by the allurements of the manufacturers and the spectacle of an active trade.

While we receive this handsome benefit, our sugar refiners are suffering. Their total fixed plant is probably worth from two to three millions, and as a number of them have had to stop working, there is an amount of present loss equal perhaps to a year's bonus on our consumption of sugar. Besides, their operatives have been obliged to seek other and less remunerative occupations, or perhaps to suffer in idleness the pains of hunger and poverty. As to those establishments which are still able to work, we regard them as labouring under disadvantages, but not as fit subjects of pecuniary assistance.

Looking at the whole case of our sugar refiners, its hardship is peculiar in several respects. The bounty which they have to contend against, differs from the protective duties which are imposed on our productions when they reach foreign countries in this, that it enables others to expel our manufacturers

even from their home markets; and not only so, but it effects this end by artificial means, and not by virtue of peculiar powers or skill displayed by the competing nations.

Were an import duty of ten per cent. imposed by us on all such bounty-fed importations, we should be only putting our own refiners on a level of honest competition, and we should not be placing foreign manufacturers in any worse position than our own. We should be seeing justice done to the one, without any injustice to the other.

Nevertheless, when examined according to the broadest principles of equity and consistency, apart from special claims for sympathy, we find that such action would be unfair to the nation, mistaken in its policy, and likely to lead to other entanglements and injustice which could never be set right.

For some time past, the sugar refiners and their friends have been urging our Government to adopt this course of action. But it cannot be pretended that we have actively brought about this misfortune to our home industry; it came unsought and unlooked for. Nor can it be pretended that the loss which has been experienced by them is more than a mere fraction of the national gain. To compel the thirty millions of people in the United Kingdom to forego important advantages, in order to save a comparatively trifling loss to the unfortunate few, would be unjust and indefensible. The better course in such a case, if it should be considered justifiable to help an unlucky body of traders, would be to compensate the capitalists on fair terms for their loss,

and probably much less than a year's saving on sugar through the foreign competition might suffice to do it.

In the urgent proposals which those parties make in order to procure some relief, they seek, above all things, to show that the first result of an import duty on refined sugar would be to put money into the National Treasury, and that what would be taken from the people in the increased price of sugar would be saved to them in the income-tax or the tobacco duty. But even if we do not raise the doubt as to any such new and additional item of taxation being as simple and economical as those in operation, it should never be forgotten that, if such import duty be estimated on a fair basis, it would shut out foreign sugar entirely, and leave us with the dearer article, and nothing more into the Treasury. The saving which at present is made, not only on the foreign import, but on the entire supply, would simply pass into the pockets of a rapidly increased number of sugar manufacturers.

It is hinted, however, that something less than a duty corresponding to the entire foreign bounty might be acceptable, but such a plan would still be doing a whole injustice to some and a half injustice to others, while it would be a mode of action that could not be defended on any side. It would neither assert a principle, declare a plain policy, nor insure a satisfactory settlement. Nothing less than a fairly adjusted duty, sufficient to equalise the bounty, could be regarded as a permanent arrangement, and such a duty would not be the securing of a contribution to

the State funds, but a securing of certain profits to the traders.

A policy which leaves things as they are, gives us the benefit of the competitive price over all our consumption. A policy which would shut out half the foreign supply, would give us only the proceeds of the duty on the fractional quantity still received, while the corresponding rate on the remainder of the quantity consumed would go to the refiners. And, finally, a policy which would exclude the whole foreign supply would give our refiners a benefit vastly greater than any loss they now show, and take it from the body of consumers without putting a penny into the Treasury.

We thus see how injustice would be done to the nation. We have next to point out the mistake in policy which would be produced by any scheme of countervailing duties, such as is proposed by the sugar refiners. It is obvious that no distinction would exist in the eyes of the world between such duties and protective rates. We have for many years declared our antagonism, on the highest possible grounds, to all such charges, and we have found it sufficiently difficult to persuade the world that this was anything else than a mere selfish cry. But what possible chance could we have of being listened to in future, were we thus to repudiate our free-trade principles the moment the tables were turned upon us, and our manufacturers happened to find themselves cut out from their home markets, as foreign manufacturers continually have been through our rivalry? We put forward, as the strong point in our principles, that they seek the good of

the many as against the few. Should we impose countervailing duties, this first principle would be lost sight of, our inconsistency would be flagrant, and we should stultify ourselves for ever before the world.

But such a policy would only be the beginning of entanglements. There are other instances, besides that of sugar refining, in which our manufacturers have been driven to some extent from their home markets by means of foreign bounties. In fact, we can never ascertain the extent to which Excise regulations in other countries may be made to assist an exportation trade. But, apart from these, we may mention one important industry among ourselves which has grievances very similar to those of the sugar refiners, and would be entitled to put them forward the moment the others were conceded. It appears that, in the process of spinning flax, a number of different qualities of yarn have to be spun out of each parcel of raw material, so as to economise the different qualities of fibre that are unavoidably mixed together. Some of these qualities of yarn require a different training in the operatives, and a finer kind of machinery, than others. Thus it happens that, in France, the manufacturers can produce a certain class of yarn quite as cheaply as we can, but in other classes we can outstrip them. All these classes of yarn, however, are subjected to a duty of ten to fifteen per cent. on entering France; and the consequence is, that while we can barely send them those descriptions in whose production we excel, the profit that is obtained by French spinners from the duty

on these kinds enables them to undersell us in the other kinds within our own markets. The bounty obtained on all their home sales enables them to float a part of their production over to our side. This case is so closely similar to that of the sugar trade, that if a countervailing duty be put upon lump sugar, it will be impossible to refuse it on linen yarns, on the same grounds. Thus the entanglements of any change in our existing policy would be endless, and there would be always some party placed at a disadvantage.

Having now considered the question of the sugar bounties, and kindred points, as being the strongest cases by which we can test the principles of free trade in their extreme application, we find the one general principle applicable to them all—namely, that it is unjust and impolitic to sacrifice the interests of the many for the sake of the few, even although the few may be the victims of unfair competition by other producers.

There are other points connected with the general topic of free trade that do not deserve lengthened notice, such as the obsolete idea that imported manufactures must be paid for by money which would be better used if circulating at home. Everyone knows, or ought to know, as it has been explained a thousand times, that imports are the exchange for our exports, that we must take imports in order to get rid of our manufactured articles, and that people only trade to make a benefit and not a loss. If gold be given in payment of imports, it is simply because that happens to be more economical than giving goods for them.

Again, it should be well known, by this time, that the great falling off in our exports a few years ago was not caused by the effect of foreign tariffs to any perceptible degree. It was caused chiefly by the discontinuance of loans which took the form of articles exported, and for which at that time we were getting no return except parchments, bonds, and acknowledgments of debt.

This aspect of the question, which touches upon the depression of trade and fall in prices, will be dealt with more fully in the second part of this book, under the head of gluts and the laws of prices. It may be sufficient to say, at present, that there was nothing in these movements to dissuade us from the practice of free trading, subject to such fiscal regulations as are necessary and strictly economical.

It may be said, with some confidence, that the experience we have had in this country during the past year has been the most signal justification of free-trade principles that they have ever received. Had that all-important section, the agricultural interest, been protected to any extent in our home markets, there would have been starvation and distress over all the land to an unexampled degree. The foreign competition, which has pressed so hard on farmers, and almost as hard on some of our peculiarly limited owners, has saved the millions; and if we have disregarded the cry of distress from our producers of food, we may well deal cautiously with the appeals of our producers of sugar.

But when all is said, there remains a bitter feeling of annoyance in the minds of many, that other

countries persist in protecting their manufactures, and injuring themselves yet more than they injure us. Of course this feeling is largely caused by the checks thereby given to our extensions of trade; and sometimes the present evils are magnified to the vision, by contemplating the idea of tariffs yet more strictly prohibitive being adopted over the world, till British manufactures should be excluded from all their principal markets.

But such ideas need not alarm us; they are based on suppositions which do not exist, such as, that the other nations of the earth will cease to be guided by their personal interests, or that their course of action will be always shaped for the benefit of manufacturers alone. We may regard them as short-sighted, and may forget that their present policy has some feasible considerations in its favour; but they are by no means blind to their own advantage, or incapable of being influenced by the logic of facts. It should not be forgotten, that the point of view of the average Englishman is but a single degree higher than that of our protectionist neighbours, and hence his feelings break out continually in proposals of retaliation and reciprocity, which will never cease so long as he feels provoked at the tariffs which prevent him from making sales.

At first thought the idea is alarming, that we are dependent on other countries for one hundred millions' worth yearly of food supplies alone, not to speak of as much more for cotton, wool, and raw material, by which our manufactures are kept in operation, and that our only mode of payment for

those supplies is by the productions which other nations make it so difficult for us to sell. But we may console ourselves with the fact, that our investments in other countries which supply these articles for our use already amount to a large proportion—perhaps three-fourths—of all that we absolutely require. For 150 millions of imports yearly we do not need to push the sale of any manufactures; and it may be added that, as regards perhaps 150 millions of our exports, other nations are as dependent on us as we are upon them for their produce. It is partly because our productions are a necessity to many countries, that they are able to impose whatever fiscal rates they choose on their importation. Thus we are more independent than we seem to be at first sight, and can afford to stand by and let the unanswerable arguments of fact and experience speak for us in defence of free-trade principles.

The vitality of protectionism, and the extent to which Government interference is displayed in its favour, depend to a great extent on the amount of influence which the representatives of trade interests have in the different legislatures. It is not very creditable to the business men in these countries to which we refer, but it seems true, that they are the obnoxiously privileged classes, who exert too powerful an influence in the communities to which they belong. Protection is a very good thing for each individual trade, though it is an injury to all the rest of the community; and each section is so anxious to secure a big benefit for itself, that it joins the others in their outcry, and willingly overlooks the

accumulated loss which all will thereby suffer. Hence it comes that, so long as trade interests combine for their individual aims, and overrule national interests, protection will be in the ascendant. What is wanted in such legislative assemblies is a strong independent body, which may be relied on to rise above the selfish considerations that ought to be represented, but not to be predominant; and then, in proportion as the interests of the whole come to be regarded as supreme over all sectional advantages, freedom of trading will be left to its own unfettered action, subject only to a healthful supervision, and to the strongest necessities of state revenue.

PART SECOND.

CHAPTER I.

The central point of Political Economy—Difference in the methods of exchange during the last 300 years from those of former periods—The method of valuation—Comparison of value is with other similar commodities, not with money—Illustrations from purchases in a fair—Simplicity of the method involving only one operation.

HAVING considered briefly in the first part of this book the nature of wealth, and at more length the agencies which co-operate in its production and distribution; having also noted some general circumstances connected with its saving and consumption, we come now to consider the exchange of wealth. Under this division of our subject, which is of importance sufficient to set it apart for separate treatment, we have to examine the method of valuation, the nature, functions, and forms of money, the regulations of foreign exchange, the international movements of the precious metals—especially in some peculiar cases, and, finally, the laws of prices and of gluts.

If there be any definite point round which the complicated phenomena of Political Economy revolve as a centre, we seem to find it in the division of labour. Under its controlling influence, all the other agencies of production take their shape and form,

and from it proceeds the interwoven complexity of exchange and transfer. If every person or family supplied their wants by exertions confined to themselves, as it is possible to conceive of their doing in a tropical country and a savage condition, the complications of production and transfer would disappear, and Political Economy would vanish into thin air.

The completeness of the division of labour, by which every person becomes a one-articled producer and a many-articled consumer, gives to our most highly organised forms of society the aspect of a national commune, where everybody works for the common good, and throws his contribution into the general depôt before he can withdraw his own allowance. Hence the universality of exchanges, and the primary nature of the question—How are all these contributions to be separately valued?

The methods of exchange in western countries, during the last 300 years, have assumed a different appearance from that of any former period of the world's history. The normal state of matters everywhere, up to that time, had been the regulation of exchange values by law, custom, or local regulation. Our own English history is full of the evidences of this fact. Grain of all kinds, bread, beer, cloth, wages, and rents, were all made subjects of regulation and fixity of price. The operations of exchange were also kept at a minimum by the narrow wants and supplies of the time, by the limited division of labour, by the custom of paying rents and dues in kind, and by the payment of servants, labourers, and artisans in the form of livery or maintenance. The

buying and selling of commodities in daily use is probably a hundred-fold more customary now than it ever was in former times.

It will be at once understood that the abundance of a medium of exchange, and the complete organisation of commerce, have chiefly brought about the modern system, which has changed the rule of law and custom to that of competition.

But it is conceivable, even yet, that officials should be appointed to appraise the value of every article of wealth brought into the common depôt; and the conception is, by its simplicity, useful in assisting us to comprehend the far more intricate but strictly analogous system, which may be called the "higgling of the market." It is almost needless to say that such a method of official valuation, though it might prevent extremes of glut and depression, would strangle every enterprise, and create anarchy in the movements of capital.

The first question we proceed to consider on the whole subject of exchange is the method of valuation.

The widest meaning of the words, "I value," embraces a feeling or emotion that is not implied in the words, "I estimate." Such is the feeling with which one regards a departed friend's letter, or a lock of hair. It does not form an element of ordinary commercial value, and, although not absolutely outside our province, must be regarded as an extraneous and occasional influence, of which we cannot take account. The word "value" is for us synonymous with "estimate" or "worth," and

always admits of measurement—measurement either by what it may be bartered for, or by comparison with the value of some other similar article. Measurement by barter is a simple and completed form of exchange, in which two dissimilar articles are compared with each other, and their transfer ends the transaction. Measurement by comparison with some other similar article, whose value has been already ascertained, brings into use a scale of valuation which may become common to all articles, and leaves the transaction at the point where agreement has been reached in the estimate, but says nothing of an exchange. The right to the property becomes transferred, and a claim upon the buyer is established, but nothing more than an I O U may be given to the seller. The idea of legal tender must be brought in to fill the gap; that is to say, in the usual absence of any agreement, the law declares, that if the seller be not satisfied to take such form of reimbursement as may be offered, he must in the end be paid by sovereigns or Bank of England notes, shillings, and pence. The specific form of reimbursement, whatever shape it may take, is properly called the medium of exchange, as it enables the person who has just parted with one commodity to go and buy another; when he has done so, then the exchange of commodities is completed. But the process requires two operations, and the intervention of a medium.

Let us suppose a person buying a horse in a Yorkshire fair. He compares it with other horses that have been valued at certain rates, and, while adding a pound or two for a good point here, and deducting

a pound or two for a bad point there, remembering also the weak or strong demand, he arrives at his valuation, and submits an offer, which is accepted. The process is a mental one, and the pounds are pounds in the abstract, so far as the valuation is concerned. If the buyer be a Scotchman, and if he offer Scotch notes, every pound is made subject to an abatement of 2d. or 3d.; if he has sovereigns, and some of them be light, he has to make an allowance of 6d. or 1s. on each; if he offer a cheque on his banker in Edinburgh, it is subject to a deduction of 2s. 6d. per cent. The pound of valuation is not in perfect unison with the current pound in notes, in sovereigns, or in the written order.

The point deserving notice in our illustration is, that the process of valuing fixes attention on one operation at a time—namely, the comparative worth of the commodity in reference to some other similar commodity, of which the value had already been determined. There is no confusion in the mind of the man buying the horse, through mixing up its estimated valuation with an estimated valuation of the coins in his pocket. He first settles the value of the animal, and then that of the light coins or the Scotch notes. And this is the inevitable tendency of human nature, because it is the easy and the simple process. A system of exchange in which a double operation had to be performed, by estimating the commodity and estimating the payment simultaneously, would be intolerable in its complexity, and totally unsuited for rapid business.

Moreover, if the person who sold the horse and

got the money wished to buy a milch cow, he, in turn, would value it, not by the price of the horse, or the amount he has in his pocket, but by what he knows other milch cows have been selling at; and in doing so, he uses the same scale of valuation as that employed in estimating the horse. Thus there is a common scale by which the horse and the milch cow can be compared afterwards. Again, if the same person buys a hat, he uses a lower grade in the scale of valuation, and it may be in fractional parts of the pound, say in shillings and pence, that his comparisons are made.

As the real measure of the value of any commodity is, therefore, the value of other similar commodities, and the only element that is common to them all is the scale that is used in making the estimate, we prefer using the words, "scale of value," to the more common expression, "measure of value."

The result is that we require, as the very first element in modern exchange, a common scale of valuation, independent of the various forms in which reimbursement may be made.

CHAPTER II.

The Scale of Value—Its origin—Money of Account—Money in current use—The Standard of Value—Proposals in former times to place it in grain; also in a day's labour—Mistaken impressions as to the relationship between Money and Value—These impressions to be explained and refuted.

THE scale of value—or worth—is usually taken from some coin that has been in long and common use. It is not necessarily the coin that is declared by law to be the standard of value; but rather likely to be some ancient form of money of small denomination which common usage has set apart as an ideal measure, from which even current coin may vary in such a degree as to become in itself subject to valuation.

This scale of valuation is adhered to very tenaciously by the body of the people, and has often outlived any form of money that once corresponded to it. For example, in some parts of Canada it is said that their common scale of value is still taken from the old American dollar, though there has not been such a thing coined there for generations.

With the same tenacity people hold to the ancient modes of writing down money. This is called money of account, which also has in many cases outlived and diverged from the forms of money in use. In England, the money of account has been handed down from immemorial generations, and is probably

derived from the Romans, who brought civilisation into the land. It has been usually expressed in pounds, marks, shillings, and pence; but pounds never were coined, nor, probably, marks either, and no shillings were coined from the time of William the Conqueror till Henry the Seventh. In America, the money of account for foreign transactions was kept in the old dollar of 4s. 6d. for many years after their current dollar had been changed to 4s. 2d., and the distinction was only dropped a short time ago. The scale of valuation, and its written expression in money of account, though not identical, tend to become associated, and cling to one another; but, in the former, many fractional parts, such as groats, sixpences, and half-crowns, are used, which can be dispensed with in the latter.

There is yet a third element required for public convenience—namely, that some of the forms of money in common use should be a ready embodiment of these other two. That form which is likely to be adopted will be the most familiar, the most useful for small transactions, and the kind possessing least intrinsic value. Any kind of money that is more valuable than another acquires what is called a premium, or else disappears from circulation, while the less valuable retains its place as the ready exponent of the common scale of value. If shillings ceased to be coined in England, and were withdrawn from circulation, they would still retain their place in the money of account, and in the minds of people when making their estimates; but the nearest representative of them would be the florins and sixpences

left behind. Moreover, if there were light florins and heavy ones current, the heavy ones would often be retained and the light ones passed, as "bad money always drives out good." The reasons why such rules prevail will be more fully explained in dealing with the requisites of currency, and the international circulation of the precious metals. But we have, meantime, got three elements necessary for convenience in the exchange of commodities—*first*, a scale of valuation; *second*, a mode of expressing it in money of account; *third*, a suitable exponent of it in some form of money that is least likely to be required for foreign transactions, or for any special purpose that would put a premium on it.

There is a something entirely different from the scale of value called the "standard of value," which is simply a definition by law of what is to be regarded as satisfactory payment in the case of long-enduring contracts. At present the law is that in any such contract the word "pound" shall mean ultimately so many grains of gold coined of a certain fineness, or, for less than two pounds, an alternative of so many grains of coined silver. The gold coin which passes by the name of a sovereign is the existing standard of value in the United Kingdom; but in former times, when the limited supply of gold and silver had to be divided out into a constantly increasing number of pieces of smaller weight, the standard of value was found to be very insecure, and endeavours were made to place it in a certain quantity of grain. In the time of Queen Elizabeth, the colleges of Oxford were ordered to reserve a

portion of the rents of their lands in stipulated quantities of wheat. Dr. Adam Smith was of opinion that the best standard of value by which to estimate the comparative prices of different articles at different periods of history was the price of labour—that is to say, the day's wages of a working man. Taking that amount at different periods, and comparing it with the prices of other articles at the same time, he thought one might be able thus to estimate comparative values, and to say whether or not the principal wants of life are more easily obtainable now than formerly.

But the common scale of valuation serves to measure all variations in values from the time of its adoption till now, and the definition of a "standard of value" is simply a regulation for giving a fixed and permanent price, according to that scale, to some particular article, such as gold or silver. Apart from such regulated values, all articles have fluctuated in price on their individual merits, and according to the various circumstances attending them. There has never been any cause at work which altered the price of everything simultaneously and uniformly. Nevertheless, all prices have a spreading or levelling tendency, as we see at every stage of our enquiries.

The fact that the scale of valuation seeks for an expression in money of account, and an exponent in money of currency, has made people believe that the money itself is the measure of value, and is used in every case by way of barter for the commodity; so that if coins become lighter or in better supply, more of

them would be given in order to get rid of the stock, just as if there had been a bad or over-abundant crop of the medium of exchange. To explain and expose this misconception is the main purpose of the present book. It is a wide-spreading and fundamental error, surrounded by a network of theory, and serving as a principle from which to draw many inferences as erroneous as itself. It rests upon the assumption that the value of all commodities is estimated, not by a comparison with other similar commodities, but by the existing supply of money in coined or other representative forms; that the precious metals alone supply the basis of all true money, and are themselves ordinary commodities, subject to fluctuation from supply and demand, and regulated by cost of production; consequently, that a change in the supply or the value of the precious metals makes a rise or fall in the prices of all other commodities. It is certainly believed that the advance in prices, from the time of William the Conqueror till the last century, was chiefly or entirely caused by reduced coinage and the inflow of gold and silver, while it is considered probable that the great discoveries of the former metal during the last thirty years have also brought about a rise in prices within our own times.

We must, therefore, trace how the mistakes have arisen on which this erroneous system of teaching has been based; and, taking it up point by point, show as above that the values of all commodities are estimated according to a scale which people carry in their minds from transaction to transaction; that it is uniform, unfluctuating, and quite independent of

any aberration in current money, and that different kinds of current money (in coin or otherwise) constantly tend to diverge from each other in value, although the theory is that they all alike serve as the basis of measurement. We have already seen (page 32) some points of difference between the precious metals and other commodities as regards their free production, and their subjection to the ordinary rules of cost as an element of value, and we shall see, later on, that in certain cases they have been kept apart from the ordinary influence of supply and demand by the regulations of mints. We shall also endeavour to point out some circumstances not usually recognised in the laws of circulation, of foreign payments, and of prices; and hope in the end to leave no trace of a foundation for the supposed effect of the gold importations during the last thirty years. The very doubt that exists as to the effect of these unexampled importations should be a presumption, if not a proof, of the unsoundness pervading the whole theory we contend against.

CHAPTER III.

The forms and functions of Money—Antithesis between a store of wealth and a medium of exchange—Development of the functions of money during three periods: *first*, the period of Metallic Currency; *second*, the period of the old European Banks and the early stages of modern Banking; *third*, the period of Deposits, Cheques, and extended range of Bank Money.

WE have spoken of the scale of value as distinguished from the standard of value, and noted its connection with money of account. We have now to treat of the nature, forms, and functions of money, in which the valuation finds its exponent, and which, in all its adaptations, acts as an intermediate for the exchange of commodities.

Money in its simplest and rudest form is usually some kind of property intrinsically valuable, but by degrees it has become representative rather than real, and variously complicated in its forms. This has been caused by the elaborate organisation of commerce, and the development of its use as a medium of exchange rather than as a form of property. Completed exchange, as we have seen, is a double transaction, in which the seller first disposes of his commodity, gets his ticket for it, and with that ticket buys another commodity. The ticket is the medium of exchange: of course there is nothing to prevent that ticket being in gold, but in most cases it does as

well in paper, which saves the expense of keeping gold for that purpose. The word "property," in its ordinary sense, as meaning a stock of wealth, is the antithesis to a medium of exchange; the first is intended to be kept, the second to be given away.

Let us now trace the process by which money has become less and less an article of real value—a present equivalent—a store of property; and more and more a ticket, or medium of exchange.

In its origin, and among uncommercial nations to the present day, the kind of property that is at once most useful, easily divided, and readily conveyed, is made to serve as money. Cattle has been one of its common forms at that stage, and some of our own terms now applied to coins and paper documents have been retained in use since the time when they referred to live stock. Skins have also been frequently used as money, and personal ornaments have served the same purpose. It is, perhaps, quite as much to their ornamental character as to their usefulness that we may ascribe the adoption of shining metals—such as copper, silver, and gold. Copper would seem to have been the primary material of money in ancient times; and when silver and gold became also sufficiently abundant, these metals displaced the use of cattle for such purposes in southern Europe. *Pecunia*—cattle—became *Moneta*—money from the *mint*.

Let us now give the briefest possible glance at the history of money in England especially, taking it at different periods.

FIRST PERIOD.

The first begins with the time of the Conquest, from which we date our present monetary system. At that time the money in circulation was of silver, coined into penny pieces rudely hammered out, and containing about as much metal as is now put into our threepenny pieces. Each silver penny contained the 240th part of a pound, Tower weight, and payment might be made either by weight or by tale in small transactions, while it was always by weight for large sums. Twelve pennies represented a so-called shilling, which was then used as a division of weight as well as of money; but there were no shillings coined till the year 1505. By that time the quantity of silver in the coin had been reduced one-half, so that a pound by tale—that is to say 20 shillings or 240 pennies—only contained half the original weight. The word "pound," in its ordinary use as money of account, became attached to the coins, and not to the weight of the metal. Previous to this time, a few gold pieces, called florins, nobles, and angels, had been issued from the Mint at various regulation values of 6s. 8d. and 10s.; but neither then, nor for a hundred years after, were they of any importance as currency. Another slight reduction in the silver coins took place before 1543, and then, for ten years, the issues from the Mint were debased with alloy, and the intrinsic value of the coins was altered to an excessive degree. These debased coins, strange to say, did actually pass as currency alongside the purer coins, but it was with difficulty, and under the

pressure of necessity. The confusion was intolerable, and in a short time they had to be withdrawn, or the old coinage would have disappeared, and the people would have had no money except this inferior supply. It was about the same period that the mines of Mexico and Peru had begun to pour their newly discovered stores of silver into Spain, and an extraordinary increase in the growth and shipment of wool from England, shortly afterwards, seems to have given the latter country a full share of the precious commodity in exchange for its raw produce. Thus it happened that, in 1560, the government of Queen Elizabeth was able to carry out a plan adopted in 1553, and to remove serious grievances, by supplying an abundant and renovated currency, which was highly serviceable for all payments either at home or abroad. In this renovated mintage, the Troy pound of silver was divided at first into sixty and afterwards into sixty-two shillings; and thus, in the course of little more than 200 years, the pound in silver had become reduced to a third part of its original weight, but the number of pieces in circulation had increased immensely.

Our first period may be regarded as closing with the end of Queen Elizabeth's reign, up to which time the money of Europe was confined to metal coins, and those chiefly of silver, with a limited transference of bills of exchange.

During the latter part of that period, though a renovation had taken place in England, the money in current use on the Continent had become greatly worn and deteriorated; the silver was debased with

alloy, and the weight reduced without system or regularity. The privileges of minting were not only held by a great number of small states, but were conceded to nobles, abbots, and subordinate authorities of different kinds, without order or supervision. As silver was coming more and more freely from America, after the discovery of the mines, a state of anarchy was created in the monetary systems of Europe. Moreover, a great increase of business had taken place, and the prosperity and enterprise of Florence, Genoa, and Venice, spread northward, and extended to Nuremburg, Amsterdam, and the Hanse Towns. Thus the payment of debts that arose between the merchants of these different cities, became not only frequent and necessary, but extremely troublesome, on account of the variety of coins, and the difficulty of finding a standard for their value.

SECOND PERIOD.

Under these circumstances, the most important development of the modern form of money took place, and it serves to mark the beginning of the second period of our survey. It consisted in the formation of the old European banks, the adoption of a standard of international values and money of account, and the circulation of a certain kind of paper currency based on deposits of coin and bullion.

The regulations of the Bank of Amsterdam, which was founded in 1609, have been taken by Dr. Adam Smith as a specimen of the working of these institutions. The system was as follows:—In order to

serve as a centre of payment for bills of exchange, as well as for all transactions in the city and surrounding district, it was resolved to adopt the full standard of silver money in Holland, and reduce all payments of coin to that standard, calling it money *in banco.* The result was, that bills to be paid there, except some of small denomination, had to be drawn up in the terms of money *in banco*, and so a general money of account was brought into use. By this means also a recognised standard of value was created, according to which coins were estimated by weight and fineness at a fixed price. When payment of a bill was to be made, the practice of opening an account was encouraged, in preference to sending or delivering a supply of currency for the occasion. The account was opened by a deposit of coin, the value of which was taken at the fixed price, and placed to credit in the Bank's books. This amount could be sold or transferred at pleasure, and was always worth a considerable premium; but no encouragement was given to withdrawing it, or, as we should say, chequing it out. In that case the owner, instead of getting the premium which was obtainable in the open market for his deposit receipt, had to submit to a deduction, and there was no allowance of interest. In the case of bullion, more facilities seem to have been given for its deposit and withdrawal, as there was considerable trade in the precious metals from an early period at Amsterdam, and it is still the first or second emporium in the world for silver.

The purpose of the scheme was to establish a system of keeping accounts for merchants, and

saving the transfer and loss in payment of mixed coins. As a basis for these accounts, deposits were to be made and left undisturbed, while the depositors were to have their payments effected by simple transfer in the ledger, either according to written order or by personal instruction.

The example of Amsterdam was followed by other important towns, and there grew up in that century a widely-spread system of Bank accounts and Bank money, or—as it might be more correctly termed under such circumstances — book money. Large quantities of the precious metals must have been withdrawn from circulation, and placed in the cellars of these Banks, as at one time the Bank of Amsterdam is supposed to have held 36 millions sterling. It was probably in this way that we may account for the considerable supplies of silver that were said to have been exported from England in the time of James the First. But the book money which could be circulated on the basis of these deposits, must have been such an enlargement of the medium of exchange as to have far more than counterbalanced all inconveniences produced by the locking up of the coin.

There was no institution in England corresponding to these original European banks, and the London merchants were in the habit of lodging their spare cash at the Mint in the Tower. But, in the year 1640, Charles the First seized and appropriated the whole of this money, amounting to £200,000, and from that time forward the merchants lodged their money with the goldsmiths. These goldsmiths had

acuteness and enterprise enough to turn this circumstance to account, and they began to do a banking business in a small way. They lent cash for short periods, and discounted bills, while they encouraged the deposit of cash with themselves by allowing 4d. per cent. per day for its use. Here was the nucleus of modern banking in a rude form, but circumstances prevented its fuller extension at that time.

The next step in developing the functions of money during this period, was the formation of the Banks of England and Scotland at the close of the century. These institutions were not copied directly from the old European banks, and their arrangements were different. They were chiefly intended to assist the Government of William the Third in prosecuting the war with Louis XIV. Their capital was sunk in Government loans, and they were allowed to borrow a limited sum, but not to lend more money to the Government without Parliamentary sanction. They were to discount bills, purchase bullion, and make loans on the security of jewels and merchandise. They were also to issue promissory notes of £20 and upwards on the security of the Bank's capital, which was itself secured by the Government. These promissory notes were in some respects a great improvement on the deposit receipts of the old banks, which only transferred lump sums by an inconvenient process; but the notes were for fixed amounts, and passed from hand to hand without reference to the Bank. On the other hand, the credits granted by the earlier banks were based on a security that made them redeemable in metal to the utmost farthing, at any

moment of emergency; whereas the new notes, though ultimately safe as an investment, were issued on a very narrow basis of convertibility, and only a balance of coin was held in hand for that purpose.

Loans granted in such notes—which could be issued without definite limit—seem to be a creation of money without any solid foundation whatever. The idea looks like a hollow pretence, and innumerable evils have been supposed to result from it. But it is nothing more than one man's bond given in favour of another. The Bank customer got a loan in notes, and whoever gave solid property for these notes was simply lending it on Government security. It would have been the same thing if the solid property had been first lent to the Bank and then to the customer; the scheme would not then have seemed such a baseless fabric.

These notes were from the first in good repute, notwithstanding a hitch that occurred at the start, caused by a renewal of the currency, and the presentation of notes for fresh coins more rapidly than the Mint could supply them. They were greatly needed and freely used, so that their success created quite a rage for banks and bank notes in the early part of the eighteenth century. People believed that any substantial property would do as a basis of issue, no matter how unrealisable; and that notes would be treated the same as coin or bullion, and stored away as enduring wealth.

Thus a great many faulty schemes were launched, and various disasters occurred; but the use of paper money, as the notes may be called, to distinguish

them from the book money of the older banks, spread rapidly. The use of Exchequer Bills was also adopted at that time, and they were issued for smaller amounts than the bank notes.

During this second period, a fresh renovation of the coinage took place immediately after the Bank of England was founded. On that occasion, about seven millions' worth of silver was issued from the Mint, at an expense to the nation of nearly three millions sterling. The currency had become worn, and good coins abstracted to such a degree, that the average weight of the coins withdrawn was little more than half of the standard weight.

As yet the quantity of gold was comparatively small, but a new piece had been minted in 1663 out of gold imported from Guinea, on the coast of Africa, and that name attached itself to all the successive issues of similar coin. They were intended to pass for twenty shillings, but immediately commanded a premium, and this premium fluctuated during the next fifty years from one shilling to ten. In 1717 the value of the guinea was definitely fixed at twenty-one shillings, and remained current at that rate till 1816, when it was withdrawn from use, and the sovereign of twenty shillings was substituted in its place.

THIRD PERIOD.

We now come to the third period in our survey, which may be regarded as embracing the last 130 years. So far as we have yet traced these movements, the public had only received the benefit of a very limited paper currency, and no organised system of using deposits had been thought of, nor was there much additional facility given for mercantile transactions. The law prohibited the formation of any additional joint-stock banks in England, but a number of private banks were started about the middle of last century. In Scotland the prohibition of joint-stock banks was not in force, and several of these establishments were at work. It was in that country that the great extension of means and influence on the part of banks was secured, by a system which dates from about the year 1780. This system was the gathering in of small sums of savings from the people, who had no resource but hoarding; and the banks, by using these sums in loans to customers, were able to give depositors a yearly interest thereon. In carrying out this idea, branch banks were by degrees scattered over all parts of the country, so that every little rill was caught in the stream; and their united volume constituted a vast flow of savings, pouring into the central offices of these banks, and enormously extending their means. Such deposits served not only as a great addition to the funds of the companies, but materially helped them to extend the issue of their notes, as no one feared to take a bank note, which could thus be placed

at interest immediately, and, if necessary, recalled in coin after it had been deposited. The funds thus left in the hands of banking companies were used in discounting bills and granting cash credits to their customers, by which means the banks eventually engrossed into their own hands the entire business of the country, and, in doing so, brought to great perfection the system of payment by cheque and by bank orders. In proportion as this system was extended, the use of coin, and even of notes, was partly dispensed with; and now, with its further extensions of guaranteed cheques and Post Office orders, taken in conjunction with foreign and inland bills of exchange, it constitutes the great modern development of the forms and functions of money.

The system of cheques and deposit receipts appears to have been adopted by some of the private banks in England about the same time that they came into use in Scotland; but less progress was made in the former country till the law was altered in 1826, and joint-stock banks were allowed to operate if they did not come within sixty-five miles of the Bank of England. All of these were issuing banks, who gave out promissory notes payable on demand, but the convertibility of these notes was only secured by the sense of responsibility and prudence of the bankers. In 1834, non-issuing joint-stock banks were for the first time allowed in London, and, since then, banking facilities have rapidly developed all over England, though not with such completeness or strenuous enterprise in facilitating business and serving the public as in Scotland.

The issue of Government notes is a feature of the same period, and probably dates as far back as 1768, when Russia is said to have adopted this expedient. These notes are always made legal tender, and are usually returnable in taxes, but not convertible into coin. They have been brought into service in many different countries, and have held their ground so well as to show that there is a use and a place for them; but England has never found any need for their adoption.

There only remains to be noticed one subsidiary, but not uninteresting modification of the metallic currency. At the renovation of the English coinage in 1773, as it was found that large payments were usually made in gold, a regulation was passed making the payment of more than £25 in silver not legal tender unless made by weight. This was to check the practice of gathering up inferior and worn-out silver coins, and paying them away in exchange for notes or full standard money; thus preventing the inferior coins from being returned to the Mint. The idea was carried out still further in 1816, when silver was made legal tender for only £2 either by weight or by tale. At the latter date, the weight of the shilling was reduced from the standard that had been maintained since the time of Queen Elizabeth to the 66th part of a pound, Troy weight. As the roughly estimated market price of silver throughout Europe corresponded to about sixty-two shillings in a pound weight, this plan of "taking too much out of the stuff" made our shillings useless for exportation, and reduced them to what we call *token money*. That

expression means that twenty shillings are tokens for a sovereign; and as copper money is also above the intrinsic value of the metal, we say that twelve pence are tokens for a shilling.

Token money has not yet spread very much over the world, save for the least valuable coins, such as copper and its mixtures, but it has a great deal to do with the maintenance of a single standard of money, and may have to play an important part in the future history of silver coinage.

CHAPTER IV.

Four different forms of money—Proportional amounts of different forms in one day's business of a London bank—Estimated turn-over in a year throughout the United Kingdom—Simplicity of currency movements; obscurity of bank money transactions.

WE have now completed our brief and imperfect sketch of the gradual development of money in its forms and functions. Of all these forms thus described, and now in use among ourselves—namely, the standard currency in gold, the token currency in silver and bronze, the paper currency in bank notes, and the bank money in cheques and bills—the last mentioned class is used to an extent that reduces the others to an appearance of trifling importance. We call bills of exchange bank money, because they are in such large proportion made payable at banks, and transferred from account to account in bank ledgers, as to be virtually in that class. As for cheques, they are exclusively of that character. It has been stated, that in a single day's payments into one of the London banks, a number of years ago, the proportion of these different forms of money was as follows—

Cheques and bills, ...	£18,395,000
Notes, ...	487,000
Coin, ...	118,000
	£19,000,000

These, of course, were bank transactions, in which cheques and bills would naturally predominate. But it might be possible to estimate, in some rough way, the services rendered by the different forms of money all over the kingdom, say for a year. Even although the estimate should be wide of the mark, the attempt to draw it up will assist us in understanding the various operations which the medium of exchange performs.

Taking as our groundwork the usual supposition that the annual income of the people of the United Kingdom is 1000 millions sterling, that sum represents the amount they have to spend on food, finished commodities, services of a domestic character, savings, and investments. It does not include the repeated purchases, by merchants and manufacturers, of unfinished commodities at their various stages—these will be considered separately—but it represents all wages, rents, interest, and profits.

It has been supposed that the income from weekly and monthly wages amounts to one-half of the whole, say 500 millions per annum. Only a small portion of that income is laid aside as savings, and the bulk is turned over on an average every three weeks. The amount of money required for this purpose would accordingly be about 30 (say 35) millions, turned over seventeen times in a year. A large part of this sum must be in silver, the rest in notes and sovereigns; all of it being currency, and not bank money.

As to the 500 millions of income from rents, interest, and profits, the last named may be regarded

as coming in constantly, or say every month; the rents every three and six months, and the interest twice a-year: thus, if we average them at four months all round, then the money required to pay them would be turned over three times in a year. But probably only half the amount would be actually taken in the form of currency, and this moiety, consisting of 250 millions divided by three, would give us about 85 millions as sufficient for the purpose, the rest being put to credit in bank books, and manipulated by cheques.

We have thus made up the requirements of circulating money to 120 millions constantly in use, but we may add 30 millions more for balances of cash always kept on hand to avoid actual depletion of funds; and yet another 30 millions as cash on hand with the banks; in that way we arrive at 180 millions as the total. Of these 180 millions 55 are in notes, as we know from the published circulation of the banks, and the remainder are probably one-sixth silver and five-sixths gold, the bronze coins being left out of count. As to the gold, so far as regards current use, it is almost confined to England, where banking conveniences and the economy of metallic money have not yet overtaken the much more advanced position taken by Scotland and Ireland during the present century.

Thus far we have got in treating of the monetary movements of the United Kingdom—120 millions of currency constantly at work in turning over 750 out of 1000 millions of income and expenditure, while the remaining 250 millions are sunk in the

mass of bank accounts. But all this is a mere fraction compared to the turn-over of traders' capital. The Clearing House accounts of London are over 5000 millions in a year, and if provincial clearings are as much more, we have at least 10,000 millions of brokers', traders', and manufacturers' bills and cheques passed from hand to hand in twelve months. It would be an outside estimate to take one-tenth of these clearances, say 1000 millions, as representing the traffic in stocks and shares for a year; and with that deduction there remains 9000 millions of traders' money, which would represent a tenfold turn-over of the 900 millions' worth of finished commodities which are put into consumption throughout the year. This estimated expenditure includes fresh investments, such as railways, and allows for 100 millions to be expended on unproductive labour, and other forms of domestic consump tion, which do not appear among the finished commodities, the whole expenditure being assumed to agree with the total income of 1000 millions.

In the attempt to survey after this fashion the monetary movements of the United Kingdom, in which we seek more for clearness of idea than accuracy of figures, we do not feel so much difficulty in comprehending the movements of currency, as in tracing the real solid facts that underlie the movements of cheques and transfers in bank books.

The currency evidently is handed over to receivers of wages, passed from them to retail shopkeepers and tradesmen, transferred thence to wholesale merchants,

and again back to the banks from which the wage-payers originally obtained it.

But in the case of cheques, and all forms of mere bank money, each of these is to be regarded as an actual transfer of property, of which the paper document is a double memorandum, recording the transfer by a debit entry on one page and a credit entry on another. Moreover, the property that passes among traders is something like the medium of exchange; it is not to be kept, but to be given away again. Thus every memorandum that passes to the debit of a man's account recording his purchase, will be passed once more to his credit so soon as he can get a sale accomplished.

As long as incomings and outgoings balance each other, no currency money is required; it is chiefly to make up payments when no commodity has been transferred that notes and coin are used.

All fresh incomings to banks are in the form of currency, or claims for currency. These are abstracted in small sums from the circulation of the kingdom, and, so soon as they are lent out or used, pass back into the circulation once more. Behind them remain entries which are being continually transferred, as the money which has been paid in and then paid out remains out; while only the cash reserves of the banks are maintained in the form of currency, and the rest of their business balances itself by cross entries. In that way, by small sums and a gradual process, the funds of the banks in capital, reserves, and deposits have swelled up to the large total of 500 or 600 millions sterling, although the

whole existing currency is not estimated at more than 180 millions. Of this large total, perhaps one-half has been lent out as it came in, and forms an equally flowing current of cheques and cross cheques; of the remainder, nine-tenths may be in realisable securities and lying at call, and one-tenth (that is to say, one-twentieth of their whole funds) held in cash. The one-tenth is of course a mere estimate, but the economy of currency is so great, that an increase of bankers' cash reserves by another twentieth part of their whole funds, would so seriously draw upon the ordinary supplies of currency as to create a violent dislocation of all business affairs. An occasional increase of that kind, though seldom perhaps to such an extent, happens at times when there has been a drop in values, causing an interruption of sales, and a delay in passing cheques to credit. Bills must then be met, notwithstanding the slow sales; and as cheques are not forthcoming, cash is used, which the cautious bankers put away in their safes. Thus their reserves are increased at the expense of the circulation. At such a time the currency needs to be, and ought to be, greatly increased in amount, but the problem of how that is to be done is one whose discussion used to set people by the ears. Its conditions do not seem ever to have been correctly stated, far less understood.

The movements we have just been describing, may be stated briefly by saying that all interchange of money through banks tends to melt into claims which balance each other, and leaves the use of currency to mere surface work; its special service

being rendered when accounts are rising above or falling below their natural level. The use of currency is at its minimum when trade is steadiest, and cross accounts balance each other; while it is at its maximum when panic clogs the circulation, and a sudden restriction of loans makes the incoming payments to banks larger than the outgoing. Between these, we may class such movements as usually recur at the period of harvest, when many payments have to be made without the use of bank money, and the currency for a time requires a trifling extension.

CHAPTER V.

Requirements of Standard Money—Laws of circulation—Requisites necessary in Current Money—Lax conditions of ordinary currency, both in metal and in paper—Inconvertible Notes—Plan adopted by the American Government—Erroneous impressions regarding depreciation of Notes—Forced Currencies—Convertibility of Bank Notes—Regulations since 1844—Objections to ordinary use of the word "money."

WE have been speaking of money in its four different forms of standard money, token money, paper money, and bank money.

According to common acceptation, standard money contains such a quantity of metal in the coin as will be an equivalent of real value, either for long distant payments at home, or for payments abroad. Consequently, there needs to be a fixed and unvarying price for the metals of which money is made in the markets of the world, or the danger will arise of standard coins being only a standard at the time when, and in the country where, they are issued. This, unfortunately, is the case at present with the rupee of India, as well as with the silver coinage of some other nations. In England silver money is not the standard, and, being purposely made light, is simply a token currency. Yet the striking thing is, that the token currency of England and the standard currency of India circulate perfectly well in their respective countries, and without a trace of change; though, in the meantime, such a fall has taken place in the value

of silver as to make its coinage almost useless for international payments.

We are thus brought to consider the laws of circulation, and we shall find that, within certain limits, they serve to protect the metal currency of a nation from the fluctuations of bullion in foreign markets, so long as the currency value is more than the bullion value; and not only so, but they protect the movements of paper currency, whether convertible or inconvertible, in very nearly the same manner that they affect the coinage.

The one thing necessary to all forms of currency is, that *they shall pass*. They must go from hand to hand, or find sufficient outlet in some way; they only lose their character as currency when they cannot be got rid of. That is the essential quality by which different forms must be tried, in deciding on their fitness for the service they have to render.

The requisites of circulation are therefore two: first, that the issues be from some recognised or official source, which gives confidence against deception or forgery; second, that they admit of being freely returned, when necessary, to the source from which they come.

In every commercial community, there is an absolute requirement of some medium of exchange, the amount of which depends on the habits of the people and the extent of their transactions. The precise nature of that medium of exchange, or current money, seems to be of little importance; the necessities of the case make it circulate in performing the business of the country, and the freedom of

return prevents the supply from accumulating, or being in excess. Thus it happens that such forms of money may even circulate freely without being a legal tender, as the issues of Scotch and Irish notes abundantly testify. Moreover, in those countries where different forms of money have free commingled circulation, there is great elasticity as to the quantity that can be used of each kind, and one takes the place of another with slight inconvenience. An excessive supply of silver would diminish the use of gold; an excessive supply of gold would diminish the use of notes; while they in turn could be made to dispense with the use of cheques, just as cheques have been effective in displacing them. There is an instance of a deficiency in notes, when neither gold nor silver was available, being supplied by cheques previously certified at the banks they were drawn upon, and passed from hand to hand without the necessity of endorsement. This happened in America, during a pressure for currency, in the year 1873.

As regards metallic currency, the experience of the world shows that the conditions under which coins will circulate are much more lax than might have been expected. The need of a circulating medium is so imperative, and its service so temporary, that almost any rubbish will go from hand to hand in ordinary times. It is like the crossing of a ferry; though the boat should properly be watertight, well found, and convenient, nevertheless people step into any crazy tub that is offered to them in their desire to get across. There has been ample proof that coins may pass freely when worn down to half their original

or standard weight, that base alloys of metal have been readily used under the pressure of scarcity, and that any tradesman's copper token would serve to buy a roll of bread. The coins withdrawn from circulation when the currency was renewed in 1560, must have been not only light, but largely made up of base mixtures. Yet these did not raise prices; people did not give more of them in wages, or in buying beer and bread, till they were withdrawn by proclamation. It was after the coinage was new and excellent that the great advance in prices of that period took place. Again, at the renovation in 1695, the coins withdrawn did not, on an average, weigh much more than half their standard weight, and yet they were not thereby put out of use. A very curious illustration of the willingness to pass defective coins, is to be found in the repeated and ineffective proclamations of the English kings against taking Scots money at the time when it began to be more reduced than the English. We find the following precept of Edward the Third, to the Sheriff of Northumberland, quoted in Anderson's *History of Commerce*, under the year 1354:—

"The ancient money of Scotland was, till these times, of the same weight and alloy as our sterling money of England, and for that reason it did ever pass current in England; but there being new money now coined in Scotland, in name and form like the old coin, but of less weight and of baser alloy, which now passes current in England; and whereas the longer suffering of the said money to go current in England will manifestly tend to the great deception

and loss of us and our people, and the destruction of our said English money, we hereby enjoin you to make proclamation, that none of that new money of Scotland be taken in payment otherwise than as bullion to be re-coined in our mint."

Such proclamations were repeated again and again, without preventing the people on the borders from giving and taking money that was familiar, and which could be sent back to Scotland if necessary.

As to paper currency, it is on record that notes have passed freely for many years, which were issued on the authority of merchants and small obscure bankers; sometimes with conditions of deferred payment, or other drawbacks, and on no security but the commercial credit of the issuers. Banks of the most pretentious character have scattered their notes broadcast, simply on the basis of landed property, or other forms of wealth which could not be realised in a lifetime if the notes had to be redeemed.

When we say the condition of circulation is that it circulate, that implies that there shall always be a means of getting rid of the currency without serious difficulty, and, to secure this end, the more outlets there are for it the better. Standard money is supposed to be as good and transferable a form of property as any other, consequently it needs no artificial outlet. Token currency is usually within small bounds, and not liable to accumulate at any point, besides being convertible into standard money, and in these ways it is provided for. As to bank notes, if they are in excess, there are all the bank offices at which one can dispose of them, either by

deposit, thus turning them into interest-bearing securities, or changing them into standard money. Government notes are usually returnable in taxes, besides being legal tender in all ordinary transactions. Thus circulation is maintained, and a stoppage or dead lock avoided. When a dead lock does occur, then currency becomes mere metal or paper. It loses its peculiar value when it loses its function of supplying a medium of exchange.

We have mentioned a free return to the source of issue as the principal requisite for maintaining any form of currency in circulation. Perhaps we might add that a free supply is also a requisite sometimes. It may happen, and has occurred now and again in our own country, that when the currency is very scarce, and the need for it likely to increase rather than to diminish, people lock up thousands of pounds away in their safes; this is in its own way a stoppage of circulation, and one that tends to become rapidly intensified in its effects.

Gold is not the only thing that surplus notes or token coinage must be exchanged for to promote their circulation. Any other form of currency that is not in excess—or, better still, an interest-bearing security—will serve the purpose. There is a constant tendency for the amount of money required by any community to expand and diminish at different times of the year, and in different conditions of trade. From this circumstance the necessity arises of having some elasticity in the supply of currency. Bank notes meet this requirement very fairly, as a rule; they admit of such easy return to their source

of issue. Government notes, which are inconvertible, and only returnable in taxes, have much less of this desirable elasticity.

The inconvertible note is in truth the lame dog of currency, and the *bête noir* of the Economists. It gives less compliance with the conditions necessary to circulation than any other form of money. Though usually issued by Government authority, and made legal tender, which secures for it ready payment at all railways and public offices, it is sometimes more difficult to pass than notes issued from banks, which have abundant branches, and are eager for deposits, even although these notes are not recognised as payment by the law.

The issue of Government notes is usually a fixed sum paid out to contractors or for home loans, and thus finding its way into the hands of the people. But the commercial business of a community is not always the same, as we have just pointed out. It is greater in autumn than in summer, and the fixed sum which would be right at one time would be wrong at another. Provision is seldom made for this expansion and contraction in such countries as Russia, Austria, and Italy, where the purpose of issue has been to gain funds rather than to supply the wants of the people.

An improved method was adopted by the American Government, during the time they suspended specie payments, from 1862 to 1879. They had a fixed sum of Government notes called "greenbacks," and, in addition, notes were authorised to be issued by the national banks, on their depositing a corresponding

amount of Government bonds. Thus the bank issues were exchangeable into interest-bearing securities, and capable of being indefinitely extended or contracted. Although this seems an admirable provision for elasticity of supply, it was found occasionally that the currency was too limited, and at a time of pressure, when bankers' funds were being used for mercantile business to the utmost possible extent, they had no means of buying Government bonds, and so increasing the note issue. This stringency in the supply of currency was repeatedly experienced, and eventually culminated, as already mentioned, in the necessity of using certified cheques in place of notes.

In treating of the laws of monetary circulation, a good opportunity is offered for considering the common but erroneous impression that inconvertible notes are always depreciated when they are worth less than coin. We have explained how people require an exponent of their estimate of value—how they cling to whatever form of money is most convenient or familiar, and of least intrinsic worth, to carry on their transactions. People do not prefer notes in themselves, except for portability; but if at any moment the coins are wanted for exportation, owing to scarcity of bullion, from that instant the coins begin to disappear from circulation. The notes remain available for business, as they cannot be exported or command a premium;* and so long as

* This expression should perhaps be modified, as the writer remembers seeing a statement in an American financial paper, some years ago, that a small premium had been paid for paper currency by some of the banks in the Western states.

they are more or less freely returnable, there is no divergence between them and the familiar money of account which the people carry in their minds. But the money which commands a premium has diverged from the moment it does so. It becomes a commodity which is bought and sold. In other words, we say that coin becomes appreciated, not that notes become depreciated.

No more remarkable illustration of these facts could be wished than that offered by the recent experience of America, when specie payments were discontinued there. It was a time when gold and silver were forced out of circulation by the necessities of the war, and were worth far more for sending out of the country in payment of war material, than for any domestic purposes. Consequently, these metals were greatly appreciated by the foreign demand, while the notes simply took their place by uninterrupted succession. For a time, not only gold and silver, but every commodity which could be shipped to England or other countries in payment of war material, was also in excessive demand, and brought high prices; while, in turn, every foreign commodity was dear that had to be bought at such sacrifices, whether it was war material or ordinary imports. But in the distant interior, articles that could not be shipped nor transferred to the headquarters of the army, such as garden produce and perishable goods, were much less advanced in price, and exchanged for the new paper dollar as readily as for the old silver one. All this was a very simple and natural process; but the obvious appreciation of

gold and silver, as well as of other commodities that could be shipped like them, was uniformly misinterpreted in this country as a depreciation of notes, even when American business was occasionally hampered for want of paper currency. Nothing but a total misapprehension of the facts, and a mistaken theory persistently clung to, could have prevented the plain and simple truth from being seen.

It was a similar state of circumstances that withdrew the gold from circulation in England during some years of the war with Napoleon, and caused the suspension of specie payments at the Bank of England. At that time also the appreciation of gold was called a depreciation of notes, and from the free action of the Bank, in making their issues without publication, the ignorance of the time wove into shape a whole tissue of erroneous views about the currency, and its effects upon trade and prices, that has never been thoroughly torn in pieces to the present hour.

In the instances referred to, there has been no question that the issues of notes were carefully limited, and no pressure was used to force them into circulation. The way of return was kept open to the fullest possible extent, by making the notes a legal tender for all purposes—Customs duties in America alone excepted—including even the payment for Consols, or United States bonds, by which they could to be turned into an interest-bearing security, if necessary.

Apart from such cases as these, in which care was taken to maintain as free a circulation as possible, there are instances of inconvertible notes having

been issued by Governments to the utmost extent of their ability, and with very insufficient means of returning or converting them.

Russia affords an example at the present time of a State in which a paper currency of this kind has been pushed as far as the limits of circulation allow. Only part of the taxes is payable in these notes, and the rest are payable in coin, which, from that and other causes, is at a highly appreciated value. The notes are legal tender, and all metallic currency, except that of the lowest denomination, has disappeared from ordinary use; and yet, were it not for the compulsory payment of some taxes in gold and silver, which creates serious inconvenience, and closes an important outlet for surplus notes, it cannot be said that circulation is absolutely clogged or in excess. There must be a great deal of needless trouble in carrying about notes instead of cheques for payment, but no one gives away more than he would otherwise do, merely to get rid of them.

Let us, however, suppose the case of Russia forcing a yet larger amount of notes into circulation, and placing no limit on their extent except the possibility of their issue, so that we may see how the process will work out in the end.

If such an attempt were entirely successful, the last issue would be the proverbial straw that breaks the camel's back; it would be refused by all sellers of commodities, and either forced back upon the Government, or all the issues would alike become valueless. Such a state of matters is said to exist at

present in some parts of Turkey,* and, as a consequence, people have to revert to a state of barter, or the use of tobacco and other commodities as a medium of exchange. It is not that the inconvertible currency gradually depreciates in value from the first, by a gradation equivalent to the amount of the issues, but that, when the channels of circulation became stopped, first of all a difficulty is experienced in moving off large amounts, then by rapid stages circulation ceases even in small sums, and the currency as a medium of exchange becomes defunct. A case of this kind is, of course, to be regarded as displaying the most desperate resources of a bankrupt and disorganised state.

In the case of Russia, however, it would be extremely difficult for her, in present circumstances, to create an absolute excess of currency like that described above. Such issues can only be given out in payment of home supplies and services. The contractors stand in the way, and if they refuse to take payment in notes, the only other outlet for the

* The following paragraph was published in a provincial newspaper at the end of March last, and was presumably taken from a London journal :—"Smyrna, Saturday.—On account of the order of the Porte reducing the beshliks and all small coinage to less than a third of their original value, most of the bakers and other small shopkeepers were obliged to shut up their shops, the poor people having only small change to purchase food, and nobody being willing to take it. Some hundred poor Turkish women went to the Governor and complained that they could get nothing to eat with the Sultan's money. Being ordered away, they dispersed and commenced stealing what they could lay their hands upon, until at length all the shops were closed. Great excitement prevailed for three or four days; but the Governor having ordered the beshliks, altliks, &c., to be taken at half their original value, the town became quieter."

Government is in the small payments made to soldiers and other employés. These might be able to force off trifling amounts in the shops and beer-houses; but even that system would speedily come to an end. If the Government should then insist upon all taxes being paid in the precious metals, the expense of bringing them from other countries would be so enormous—through disadvantageous exchange—that the backs of the people would be broken with taxation. The attempt would defeat itself in any country that, like Russia, has some credit to maintain before the eyes of the world, and possesses an organised Government that is still many degrees removed from anarchy and disgrace.

Thus much has been said regarding the circulation of inconvertible notes. We have seen that the wants of the people make them pass from hand to hand; that this facility is increased by making them legal tender, and arranging for their conversion into interest-bearing securities; that they cannot be in absolute excess so long as they are payable for taxes; nor would it be easy for any law-abiding Government to issue notes to such an amount as would make them valueless for currency purposes. But we have also observed that, even with free return of such notes in the payment of taxes, their issue is too rigid to suit commercial fluctuations, and they need an elastic margin of bank notes, or some other form of currency that is capable of being expanded or contracted.

Turning for a moment to the conditions under which bank notes can be limited or extended so as

to meet the wants of commerce, we note, first of all, that it is usual for them to be convertible into coin at one or more convenient places. Easy convertibility requires offices in different districts. Occasionally, banks of issue have been free from the obligation to pay coin on demand. For example, although the Bank of France at present will cash any of its notes when presented, it is not bound to do so, and has very few branch offices. But its issues are probably much within the wants of the people, and there is no pressure to get coin in exchange.

We have already pointed out that the system of taking in deposits by private and joint-stock banks which issue their own notes, and cash them on demand, is the same as offering an interest-bearing security, as well as coin, in redemption of their paper. These facilities, taken in conjunction with the abundance of branches at which the notes can be converted, make them extremely elastic as a form of currency in their respective districts.

Up till the year 1844, all bankers and banking companies in the United Kingdom were left to their own discretion as to the amount of coin or bullion they would hold in readiness to pay for notes that might require to be cashed. It was easy to provide for that necessity in quiet times; but there was occasionally a risk of such notes becoming suddenly discredited, and being presented in numbers beyond any reasonable expectation. Accordingly, in 1844 the English provincial banks were prohibited from further increasing their issues, so as to get the national currency into use instead; while in Ireland and Scotland an

average of the existing circulation of each bank was estimated, and for every note henceforward issued beyond that amount, there was to be a sovereign put away in the banks' cellars. As to the Bank of England, a certain amount of Government securities was treated in the same way as the existing circulation of the other banks, and for every note that was issued beyond that amount, there was to be gold or bullion in the Issue Department. The Bank, strictly speaking, ceased to be a Bank of Issue, and was in that respect made to resemble the other London banks. But the Issue Department, as a separate institution, was bound to receive all gold offered, and to give notes bearing the name of the Bank of England in exchange. It does not seek for gold, and it does not try to increase or diminish the circulation, as Banks of Issue naturally do. It is entirely passive and mechanical in its working.

The result of these arrangements is, that the notes of all private banks and banking companies are regulated entirely by the wants of the community, and their issue is highly elastic; but the notes of the Issue Department of the Bank of England are regulated by the stock of gold that happens to be in the London market. Nearly all the gold that arrives is sent there, till it is wanted for other markets. Thus the accidental detention or arrival of a few Australian or Californian vessels may make a great difference in the principal note issue, or at all events in the marginal portion of it which lies in reserve.

The notes issued in Ireland and Scotland are amply secured as regards the point of holding coin

enough to pay them when presented. But it is worth observing, that this fact does not produce much effect now on the minds of the people. At a time of commercial crisis they never think of rushing to change their notes into coin. At such a time they always want more notes, as has been already explained, on account of diminished credits, diminished sales, and the consequent derangement of the cross accounts that had formerly balanced each other. Moreover, if any individual bank of issue happens to lose credit, the run upon deposits is far more serious and important than the run for conversion of its notes. But there is no law for guarding the safe recall of these deposits, beyond what there was for guarding the conversion of notes previous to 1844. We have also to point out, that the amount of coin which now requires to be kept unused by such banks, is far more than is necessary to secure conversion up to the point when a bank would stop payment, but not enough to secure conversion for all the notes after it has stopped payment.

In our consideration of the various circumstances incidental to the circulation of money, we have not dealt fully with the case of silver and gold becoming so much dearer in foreign markets, or so much in demand through the movements of exchange, as to withdraw the standard coins from circulation entirely. We shall consider such cases more fully under the head of international circulation of the precious metals.

Before leaving the subject of money, in its various

forms and functions, we observe that the word "money" is extremely wide in its application, as well as indistinct in its conception by most people. Some writers have objected entirely to apply that name to anything that is not a full present equivalent of value. Such a restriction excludes everything of the nature of paper currency, bank money, or token coinage. Strictly speaking, it would even exclude the standard silver coinage of India, France, and America. Nothing but gold would meet such a definition at the present time. But when money is regarded simply as a medium of exchange, a mode of settling a transaction, there is sufficient definiteness in such a conception to cover all its forms. The great modern invention and improvement in money finds its outline in the idea of the early European banks, when they opened a ledger for traders, and kept accounts of their payments and receipts by mere written orders. That outline has been worked upon and filled in by the introduction of further improvements, but the leading idea is a commercial organisation, so perfect and complete, that all traders are brought into connection with central institutions, which act as their paymasters, and are themselves banded together in the mutual exchange of their documents at a clearing-house.

CHAPTER VI.

Foreign trade—Its essential points of difference from inland trade—Imports and exports are separate movements, not necessarily equal—Diagram of movements—Meaning of unfavourable exchange—Mode of applying exchange to invoices—Chronic adverse exchange—Peculiarity of imports and exports in such cases—Such exchange usually associated with payment of interest to foreigners—Drainage of coin in such cases.

WE must now turn to the questions of foreign trade and exchange. The simple elements of foreign commerce are easily stated. Nearly all countries have some special products, either of manufactures or of raw material, which they have advantages for supplying. It is the interest of other countries to procure these special products, and if payment can be made in the specialty of the purchasing country, both sides are decided gainers. It may happen that the selling country has no scarcity of the products of the purchasing country, but can take something supplied by a third or a fourth country, which in turn receives goods from the purchasing country. Thus, England sends cotton cloth to India, and is paid by tea sent from China; while India pays China with opium, and settles the account.

The commercial intercourse between two separate countries is something different from that which passes between two separate provinces of the same realm. The difference of the currency in use, and

the distinction of frontiers, prevent the free passing of payment in the former case, which is easy in the latter.

Great Britain is almost equally accessible to Belgium and to Ireland, and their commercial intercourse with her may at least be put in comparison; but whatever else there may be similar between them, their arrangements for settling accounts are different entirely. The uniform currency, the organisation of banks, the constant intercourse, and the personal payments, make Ireland really one with the larger country; while in the case of Belgium, the absence of these facilities makes it necessary to settle all debts through parties whose business it is to conduct such operations. These parties—the bill buyers and exchange bankers of their respective countries—form channels through which all the payments pass from one side to the other; the opposing currents which they create form the national exchange, and the fluctuations in the comparative force of these currents make the variations in the rate. Till a recent period, there was slow communication between the various centres of exchange, and movements were occasionally going on for some time at one side, before they were known at the other. But telegraph wires and steamers have all but abolished these discrepancies, and now the commercial capitals of the world are in prompt connection, and their movements respond to each other with marvellous rapidity.

The imports and the exports of a country are two separate items, that do not necessarily equal each

other in amount. Fifty or a hundred years ago, all imports and exports consisted simply of goods and bullion, the totals of which, with our modern system of entries and returns, could have been easily compared, and their variations shown. But there is a new commodity, now constantly passing to and from the wealthier nations, which forms an unknown quantity in the total of their exchange. That new commodity is the mass of securities, stocks, shares, and bonds, which floats backward and forward between the financial centres of the world. But if a record of these could be shown as accurately as of the goods and precious metals that are transferred, even then the total amounts of imports and exports would not necessarily agree. We are not now referring to the payments that may be due from one country to another for interest, or those that are made in transfer of capital, neither of which would have any counterbalancing payment: what is aimed at is to point out, with emphasis, the fact that the outward and inward flow of business are independent movements, which tend towards equality of amount, but are sometimes very far from attaining it.

It is necessary to consider this point a little more in detail, as it is seldom gone into closely. The usual way of referring to the matter in books on Political Economy, is to suppose that all the exporters on one side draw bills against their customers and sell them to the importers, who remit them in payment to the other side. But that is a very incomplete description of the process. The bills in such a case would be all drawn and sold in the one country, so that there would

be no quotations of exchange except from it. In the other country, all exporters would be paid by the remittance of bills drawn upon the importers.

The actual process is, for part of the exporters on both sides—say one-half of them—to draw bills, and offer them for sale. These are bought by importers, and sent as remittances. Thus the arrangements are divided between the two sides, and there is a price for bills—a quotation of exchange—in each, whereby movements can be corrected between the one and the other.

Below is a diagram representing the separate movement of each section in carrying on the foreign trade of two countries:—

England.		Belgium.	
Importers.	*Exporters.*	*Importers.*	*Exporters.*
	A (draw on B) =	B (pay A's drafts to D)	
C (buy and remit A's drafts) =			D (paid by B)
F (pay E's drafts to H)	=		E (draw on F)
	H (paid by F) =	G (buy and remit E's drafts).	

In these two countries, which we call England and Belgium, there are eight different sections of foreign traders, whose interchange of business is sketched in the diagram. Buyers and sellers are placed opposite to each other, and connected by the double line =. A represents half the exporters of England, who draw bills for their shipments on their customers B in Belgium. C represents importers who buy these bills, and remit them in payment of goods received from D. The same process is gone through on the other side. E represents half the exporters in Belgium, who draw on their customers F. G buys these drafts, and remits them in payment to H.

The point of observation in these movements is at the sale of A's drafts to C, and of E's drafts to G. By watching these, and in no other way, can the unseen currents and their opposing force be estimated. If at any moment there be a pressure of A's bills on the market, and C can buy them at a reduction, this will be a loss either to A or to his customer, as the bargain may happen to be; usually the loss falls on B. The next movement of B is to try if he can procure E's drafts on London on better terms, and if so, to buy and remit them, instead of being drawn against. Thus he joins the rank of G, and puts his English friends in the rank of H. The result will be, that either there will be fewer drafts put on the London market by A, and their price will rise again to the ordinary rate; or there will be such a run upon E's drafts as to advance them as much as A's drafts had fallen.

The latter movement is the usual one, and the advance is commonly made in Belgium in immediate sympathy with the fall in London. But just as a fall in the selling price of A's drafts is a loss to B, so a rise in the selling price of E's drafts is a gain to F. Thus English exports through A to B are discouraged, while her imports from E to F are encouraged. As the payment by remittance and by accepting bills tends always to equality, the other English exports through H to G are likewise discouraged by the high price that the latter has to pay for remittances; while the importers that are represented by C are encouraged by the low price of A's drafts in the same proportion.

Thus the single movement of A's drafts being overabundant, which means an excess of English exports, tells by degrees all round the circle; discourages the trade from England to Belgium, and encourages the trade in a contrary direction. The tendency is to bring them towards equality.

All these movements are shown at a glance, by the quotation of the exchange with Brussels. When A's drafts fall in value, the quotation in English money goes down, and in Belgian money goes up; and so also when E's drafts advance. On the other hand, when A's drafts rise in price, the quotation in English money goes up, and in Belgian money goes down; and the same result follows a fall in E's drafts.

When a movement of that kind shows itself, the exchange is said to become unfavourable to the country whose money is advanced in the quotation, as it is thus called on to pay something additional. But in speaking of exchange being unfavourable, care must be taken to use the expression correctly, as it readily becomes confusing. The embarrassment arises partly from the mental association between high and favourable exchange, as also between low and unfavourable exchange; and partly from the fact that a favourable exchange for one country is an unfavourable one for the other. Properly speaking, exchange is adverse to a country when the bills drawn by its exporters are few, and sell dear, while the bills drawn upon its importers are in excess, and sell cheap; because the people of such a country have to pay so much more on the cheap bills as will

recompense those who supply its imports, while it is the purchasers of her exports that usually get the benefit of the high price obtained for the bills against them. Thus the rate of exchange is unfavourable to the country whose money is quoted high, as a premium has to be added to all its imports.

Exchange is sometimes quoted in the money of one of the countries, sometimes in that of the other. For example, British exchange with India is quoted in shillings and pence for a rupee; with America, in dollars for a sovereign; with France, in francs for a sovereign.

The arrangement is simple where both countries have a gold coinage, like England and Australia; but in a case like that of France, where the standard money is a silver franc, the comparison of the British gold with the French silver is estimated at the usual rate of one ounce of the former to fifteen and a-half of the latter. That has been the approximate estimate of their comparative exchange values for many years, and on that basis a sovereign is computed equal to 25·22½ francs. When exchange between London and Paris is quoted at 25·22½, it is said to be at par. These comparative values are still retained, notwithstanding the fact that gold has become seventeen or eighteen times dearer than silver in the general markets of the world. This shows that exchange is estimated, like everything else, by the ordinary scale of valuation, and not by a fluctuating commodity, such as silver bullion.

The mode of applying the rate of exchange to the statement of account that passes between buyers and

sellers in foreign countries, is usually, though not always, as follows:—

The invoice is made out in either country at the prices and in the fashion which prevail at the port of shipment. Thus a cargo of cotton at Bombay will be invoiced in the manner common there, and be expressed in rupees. Then the current rate of exchange with the port of destination—say Liverpool—or more frequently with the centre of exchange—say London—is applied to the total amount of rupees, and the exact payment to be made in sterling money is displayed at foot of the invoice. There used to be about ten rupees to the pound sterling, and it would be so still if exchange were at par; but at present there are nearly twelve rupees to the pound, consequently the sterling money displayed at foot of the invoice is much less than when exchange is in a more favourable condition for India. Again, the invoice of a shipment of cotton cloth at London for Calcutta is drawn out in our usual form, showing the ordinary market price of such goods; but when the amount is divided by the exchange rate of, say 1s. 8d. per rupee, the actual payment by the Indian merchant is given at foot of the invoice, in figures much greater than would be the case if exchange were at par.

The whole case is similar in its operation to our supposed instance of a person buying a horse in a fair, and, after settling the price, producing various kinds of money, such as Scotch notes, light sovereigns, and bank cheques, each of which has to be valued on its own merits. The analogy would of

course be more complete if some of the kinds of money were at a premium, as well as some at a discount.

We have traced the movements of exchange between two countries, such as England and Belgium, and have seen how it might become adverse to the latter, owing to excess of imports. We have also seen that the immediate result would be a strong impetus given to her exports, on account of the favourable terms of payment charged to her customers. Should that impetus be effective, an equilibrium is produced, and exchange again comes back to par. But if Belgian exports cannot be adequately increased, there is a certain article which passes freely from country to country, and a sufficient supply of it set in motion will equalise the exchange. That article is gold. Gold is the shifting ballast that is carried on the ship's deck, and is moved from side to side to keep the vessel in trim. Should it happen that even this shifting ballast is not enough to produce the desired equilibrium, and all the gold available fails to bring exchange to par, the inducements to send stock and other securities from Brussels to London would probably throw a sufficient number of bills on the market to supply all deficiencies. A remarkable example of this kind of movement took place during the past autumn of 1879, when securities were shipped from London to America in sufficient abundance to check the flow of gold, and equalise the commerce of the two countries.

It is necessary, however, to carry our suppositions one stage further, and to ask what will happen if

even the transfer of securities, in addition to the gold, be not sufficient to bring exchange to par. Such a state of matters is common enough with some countries, though not with Belgium, and may be called a state of chronic adverse exchange.

That is a condition which implies that a country has become so needful of imports—needful beyond the power of her exports to balance the account—that she goes on year after year paying an extra charge on the prices of all her imports, and letting her exports go on such terms as to give the purchasers a bonus for taking them. It is the case of India, Russia, and many other smaller countries, and has even been the case of England at some periods of her history.

It thus becomes evident that the usual expression, "a nation's imports and exports always balance each other," has to be taken with a modification. For example, the exports of a country (apart from all loans or transfers of capital) may be worth 40 millions sterling in the ports of shipment, and its imports worth 45 millions in *their* ports of shipment, goods, gold, and securities all included, without closer approximation, perhaps for years. And yet these balance each other, notwithstanding the difference in amount, simply as a creditor's account is balanced when he has taken all he can get. But in a case of this kind, when a nation's exports are so hopelessly behind what is required, the penalty paid on her imports is something serious. The case of India is one in point. For several years past, the exchange between England and India has been on an

average 15 per cent. against the latter country, on account of her exports having been greatly below the requirements of her financial position. The result is that all her imports are burdened by a duty corresponding to the rate of exchange, which, of course, is aggravated by being carried forward from merchant to merchant throughout the interior of the country; and the burden thus laid upon the shoulders of consumers cannot be less than six to eight millions sterling per annum.

On the other hand, her export trade is stimulated to the utmost, and the merchants who carry it on have an improving business. But the difficulty they have experienced in forcing markets during recent low prices, and driving out countries such as America, which have better facilities for supplying raw produce, has been a barrier to success; and of course the competition among her own merchants prevents any of them from getting the full benefit which the state of the exchange gives to exporters. The gain which arises in that way either goes into the pockets of her customers, or is used as a margin to assist in forcing trade against the rivalry of more favoured nations.

It looks like a paradox or an illusion to suppose that any country could be so greedy of imports as to pay ten or fifteen per cent. of a duty upon them through the exchange, and be unable, with all the stimulus given to its producing power, to raise the amount of exports to a corresponding valuation.

But the condition of chronic adverse exchange is nearly always found to be brought about by some excessive drain upon the country's resources, over and above

the mere balance of trade. It happens, for example, when a country is carrying on war with foreign nations, as England was at the beginning of the present century. It happens also during domestic warfare, when the pressure comes suddenly for material and armaments, as in the case of America lately. But it happens more especially and uniformly with countries that have obtained heavy loans, of which the yearly interest and redemption has to be sent abroad. Such is the case of Russia, and such also, with intensifying circumstances, is the case of India.

The drain upon these countries to pay their yearly tribute is so heavy as to sweep up the produce of vast territories and immense populations; hence it is only with the balance of their produce that they can pay for their imports, and the strain to meet both requirements is too great for nations which do not manufacture, and whose production of raw material can only be increased by slow degrees.

It has been already pointed out that, when ordinary commodities for export are deficient, wealthy countries resort to gold as an article in general acceptation. The pressing demand for commodities that can be exported has so long been felt in Russia and some other countries, that every available ounce of gold, or even silver, has been drained out of them. And here it must be observed that, under such circumstances, it becomes impossible to get gold into a country that is suffering from chronic adverse exchange. All articles whatsoever, that pass inward across the frontier of such a country, are obliged to

pay the exchange duty, if we may so call it. Gold itself is ten per cent. dearer there than in the open markets of the world, if the bill drawn against those who receive it sells at ten per cent. below par, as the difference is simply added to the amount of the bill. On the other hand, gold is sent out of such a country as the most advantageous article of export. It differs from other commodities in this, that all the premium of exchange upon it goes into the exporters' pockets. Thus it flows in with difficulty, and flows out with impetuosity. We shall always find, in countries that are strained to increase their exports, the precious metals are drawn upon to the utmost possible extent. But there is at the present moment one most remarkable exception to the general rule, for we see India suffering under such a strain, and yet there is but a trifling drain of silver from her abundant supplies. The gold is at a premium, and has disappeared; but there is probably far more silver in India that in any other country of the world, and yet it remains dammed up within the frontiers of the country. The reason of this is a problem of the highest interest. It brings us face to face with the international movements of the precious metals, and the conditions that regulate these movements.

CHAPTER VII.

Need of extended Currency in the middle ages—Continuous reduction in weight of Coins—Extended use of Gold—Meaning of fixity of value in the monetary metals—Effect of reduced coinage on prices.

PREVIOUS to the discovery of the silver mines, first in Mexico, and afterwards in Peru, which marks the middle period of the 16th century as one of the most important in commercial history, gold was used as current money only in extremely small quantities throughout the world, and, being regarded very much as we now regard diamonds, was preserved as treasure, or used for display. This was caused by its actual rather than its comparative scarcity, as its value, compared with silver, was only 10 or 12 to 1, while now it is 17 or 18 to 1. Silver was the chief monetary metal, and for some time before and after the Norman Conquest, the states of Western Europe seem generally to have used it by weight, and to have maintained a common measure of that weight in their coins. But during the course of years, the need of additional money grew much more rapidly than the supply of the metal. There had been a steady increase in population, in wealth, and in the supply of commodities which required a medium of exchange for their transfer. The small coins of silver corresponded with the common scale of value, and were clung to, no matter how worn or faulty they

became. In the well-worn condition of these coins originated probably the first temptation to reduce the weight of fresh issues. If an old coin circulated when only five-sixths of its original weight, it was reasonable to expect that no objection would be made to a new one quite as heavy. There was also the temptation of a profit to be obtained by the process. Five pounds weight of silver could be made into six pounds by tale, and there would be a gain of 20 per cent. on the transaction. Consequently, a movement set in towards the reduction of the coinage by a gradual process among some of the European states, of whom France was the most prominent, long before it was followed by England. It is quite evident, from what we know of the laws of monetary circulation, that no difficulty would be experienced in passing these reduced coins within the state where they were issued. An increased number of them would be an advantage rather than otherwise. The material out of which money had to be made was getting more and more precious, because more of it was being required, and it had to be spread over a greater number of transactions. If any uniform system could have been adopted among the leading states, by which the relative proportion of the livres, pounds, stivers, &c., then in use, could have been retained, and their weights all reduced in the same proportion, a widespread public benefit would have been conferred by the increased medium of exchange, and foreign payments could have been made without inconvenience, on the same relative terms as before. Such a course would have been

equivalent to a uniform agreement among all the mints, that they would regard silver as advanced in value. But it is evident that no such commercial treaties could have been maintained in those days; and thus each sovereignty or state went its own way, and managed its currency according to the ideas or interests of its rulers.

When France took the lead in this movement, which it is said she was partly obliged to do from the drainage of silver out of the country in carrying on the Crusades in the East, she gained considerable advantages for a time by that policy. Her position was somewhat in advance of other nations as an exporting country, and in the external trade she was thus enabled to carry on, every ounce of silver obtained from foreigners for her goods was worth a little more to the Frenchman than to any one else, as he could get some premium on it at the National Mint, and yet leave to the king a profit on his coinage. Although it would happen, as an incidental result of the reduction in the French coins, that they would be inconvenient for foreign payments, and imports would thereby become dearer; yet, inasmuch as that part of her trade was unimportant compared with the amount of goods exported, the policy referred to was calculated to give a great stimulus to such external business, and at the same time to draw into the country a large share of the existing stock of silver.

On the other hand, we can see that a different effect would be produced upon countries such as England and Scotland, which had to import the

commodities which France or other nations supplied. Their supplies of silver for monetary purposes would be constantly flowing outward, and disappearing; their currency would be getting scarcer, and no fresh supplies would be coming through merchants' hands to the National Mint. Every state which reduced its coinage would gain thereby some power or inducement to withdraw money from states which retained the old standard, and we might well have expected to find that there was a quick competition as to who should reduce their coinage most rapidly.

It is indeed surprising that England was so long in following the example of her Continental rival, as it was not till A.D. 1345 that the first important reduction of one-tenth was made in the silver penny. A few years afterwards another tenth part was taken off, and no further change was made till 1412, when a fresh reduction of one-fifth, followed by another reduction of one-fourth in 1464, brought down the penny to little more than one-half of its original weight. Fully sixty years passed before another fifth part was taken off, and sixteen years afterwards, in 1543, the currency was disorganised in a much more serious manner, by the issue of coins at a standard of fineness much below that which had always hitherto been maintained. For ten years these debased coins passed and mingled with the existing currency, as we have observed in glancing at the history of money in England, till, in 1553, some arrangements were made to withdraw the inferior issues, and to supply fresh coinage of proper quality. These arrangements, however, were not carried out

till the year 1560, when Queen Elizabeth had come to the throne; and the regulation then made reduced the silver coins to exactly one-third of their old standard weight. The Troy pound of silver was now made into 60 shillings, or 720 pennies, instead of 240 pennies. About forty years afterwards, at the close of her reign, a further slight reduction was made by taking sixty-two shillings out of the pound, and this regulation was in force till 1816, when it was definitely resolved to reduce silver money to a token currency of limited legal tender, and the Troy pound was divided into sixty-six shillings. That is still the existing arrangement, and we have only to add that the amount of alloy in our silver coins is the same now as it was 800 years ago.

It is probable that the various reductions noted above were roughly adjusted to the general average of the value of silver bullion over Europe. England does not appear to have led the way in any of these movements, but rather to have followed under compulsion. There appears to have been some harmony of action established between her and those northern states which had become the centres of commercial activity, and it is probable that, when the Amsterdam Bank was founded in 1609, the standard adopted by it approximated so closely to that of the English coinage, as to make the latter extremely serviceable for deposits.

At the time when the first reduction was made in our currency, in 1345, the French coins were only a fourth of the old weight, and by the time the English coin was reduced to a half, the French was reduced

to a fifteenth. Meantime, the coins in Scotland, which had been exactly similar to those in England, began to be reduced at the same time with those of the latter country, but the reductions proceeded with much greater rapidity, so that before the close of the 200 years within which the principal alterations were included, the Scottish coins had become reduced to a thirty-sixth of the old standard, or a twelfth of the English weight. As to the French coins, they had by that time been reduced to a sixtieth, and eventually reached a seventy-fifth of the ancient standard, or a twenty-fifth of the English. Thus the old *livre*, or pound, became the *franc* of the present day.

It is worth observing that, as the circulation of the Scotch and English coins was greatly mixed up in the border districts, their inequality became troublesome and inconvenient. Hence the proclamations which we have already noticed, whereby the use of the more reduced Scottish coins on the English side was prohibited. At various times the Government of Scotland passed laws and resolutions with the view of meeting the difficulties of the case, and one of their plans was to order the restoration of the currency to the same weight as that concurrent in England, but declaring that, though the penny was to be of the same intrinsic value, it should pass as payment of twopence worth, threepence worth, or fourpence worth, as the case might be, on the Scottish side.

Anderson, in his *History of Commerce*, under the year 1475, writes as follows:—"The Parliament of

Scotland enacted their new groat to be made of the same fineness with the English groat, twelve of which made an ounce of silver, and their silver penny and halfpenny were to be of the like fineness, but the penny was to go for threepence. In most of their laws for raising the nominal value of their coins, they complain that their money is exported, and no due care is taken to import bullion from foreign parts, agreeable to the laws for that end. About this time, also, they raised the nominal value of all their gold coins for the same assigned reason—viz., that gold was cheaper in Scotland, and was therefore carried beyond sea."

About the same time, a regulation was made between England and France as to the terms on which their coins should be exchanged, in which it is laid down that "the English silver groat (of fourpence) shall pass for two sols six deniers Tournois," which may be supposed to have been equivalent to two shillings and sixpence by the old money of account. Thus the English penny was at that time good payment for threepence worth in Scotland, and sevenpence-halfpenny worth in France.

Such attempted regulations were necessary, but were continually broken through, in spite of all precautions. One of the measures taken to maintain them in England was the appointment of a Royal money-changer, who was the only person authorised to traffic in foreign coins. In fact, the trade in bullion and in money was the great smuggling trade of the period. It had one point of difference from the smuggling of brandy, silk, or tea in later times,

namely, that the latter were guarded against coming in, while the former were guarded against going out. There is a continuous series of proclamations forbidding the export of money or the precious metals, and extending over hundreds of years. But no laws could prevent such a movement, and the smuggling went on as an unrecognised trade.

We have thus seen how the different regulations of mints, and the varieties of coinage, were sufficient to create an international movement of silver, so long as there was no accepted standard for its value. This influence co-operated with the general tendency of exporting countries to receive more of the monetary metal than they sent out. There was yet another cause at work in depreciating the coinage of all states, and maintaining this smuggling trade in bullion—that was, the profit which could be made by picking out and withdrawing from circulation the best of the coins in each country, and leaving the worst to do the ordinary work of money. There was a constant traffic in abstracting and transmitting these best coins, as the process of wear and tear and the successive issues all tended to destroy uniformity. Such was the state of anarchy and confusion in these matters when the establishment of the Amsterdam Bank brought various regulating influences into play, which gradually changed the aspect of affairs.

The principal element of order and certainty introduced by the bank was the fixed price at which it was open to receive any quantity of silver, either in bullion or in coin. When this was combined with the deposit of large quantities of the faulty currency,

which formerly was always passing from hand to hand, but which now disappeared for ever, the business of foreign merchants was greatly simplified. From this period, accordingly, we find no such violent changes and depreciation in the mintage of silver as had been common during the previous 250 years. Fluctuations in the local movements or value of that metal were henceforward controlled by the state of exchange in each country, and by another kind of trafficking in money which began to show itself at that time, and, after disappearing almost entirely for a period, has re-asserted itself at the present day. We refer to the counter-currents of gold and silver, and their continuous passage from province to province, according as the one or the other happens to be in demand.

The amount of gold in circulation up till the close of the 16th century had been unimportant, but from that time it rapidly increased, both in quantity and value. During many centuries, the comparative values of silver and gold had varied from 10 to 12 as against 1, and at the time we are now referring to it was about 11 to 1, but within sixty years afterwards it reached 14½ to 1.

At the beginning of the reign of James the First of England, a number of gold coins were issued, to serve as pieces exchangeable for twenty shillings; but in a short time the people began to pass them at a premium, and their value for exportation, or for convenience in business, was about twenty-one shillings. In order to prevent them from disappearing, they were eventually ordered to pass current for

twenty-two shillings; but as this went to the other extreme, of being too high a rate, they became freely offered instead of freely wanted, and the shillings were retained for transmission to the Continent. A movement was thus developed, of bringing gold from Amsterdam and other places in exchange for silver, for the purpose of getting the former metal coined in London, and put into circulation in place of the latter; and this formed the commencement of that great supply of gold currency which England possessed in advance of other nations. It is mentioned in Lord Liverpool's *Coins of the Realm*, that during the seven years ending A.D. 1605, the amount of silver coined was £844,000, and of gold £104,000; while in the seven years ending A.D. 1616, the amount of silver coinage was £57,000, and of gold £1,546,000.

For a hundred years after the time when gold thus came more freely into use as currency, its value fluctuated, but on the whole tended upwards, as business increased, and its usefulness for large payments became felt. Silver was, of course, the standard by which it was estimated, as silver was the money in everyday use, and the embodiment of all scales of valuation. At the close of the wars with France, in the end of the 17th and beginning of the 18th centuries, during which the monetary metals had been in extreme demand, and subject to excessive fluctuations in value through the influence of exchange, a time of peace and industry was inaugurated, and the approximate values of silver and gold settled down at a range of about 5s. 2d. an ounce for the former, and 80s. for the latter. This

was a proportion of nearly 15½ to 1; and as various countries seem to have adopted these proportionate rates (especially England by its mintage regulations in 1717), at which any moderate amount of bullion would be coined, a regulation value was attached to both the monetary metals, which has remained in general acceptation, subject to the action of exchange, till within the last few years.

In discussing these movements of the precious metals and of coined money, we have occasion to speak of their prices, as also of their fluctuations or uniformity. In doing so, there are four different senses in which such language may be used. There is, first, the uniformity or change in the current value of any particular coin, so long as it is known by the same name; for example, the uniform manner in which a shilling has paid for a shilling's worth, without any change in the latter having been caused by change in the former. Secondly, there is the uniformity or change in the weight or fineness of the coin, such as we have just been tracing in the history of the English coinage. Thirdly, there is the variation in the purchasing price of bullion at the Mint, which corresponds to its general price in the open market. In this respect, we have seen how uncertain the general price of silver bullion was during the years when no recognised standard prevailed in Europe, till the old banks gave a fixed price and an unlimited market for that article. Fourthly, there is the variation in the issuing price of gold or silver at the mints, which refers to the intrinsic value of the coins as compared with the price of the

bullion. For example, the issuing price of silver at the British Mint is sixty-six shillings to the Troy pound, while in France it is equivalent to about sixty-two shillings, and in America about sixty shillings; at the same time, the purchasing price is now only about 52s., and was for many years about 62s.

It may be an allowable digression, at this stage, to consider briefly some of the effects of the great changes in the coinage of England, Scotland, and France, in regard to their influence on prices. This is the first sense in which we speak of *change or uniformity in the value of money.*

We observe, in commencement, that there does not seem to have been any changes made in the regulation prices of articles, such as grain, bread, beer, &c., which were in force throughout England and Scotland at the times when alterations were made in the weight of the coins. These were allowed to pass and mix with the currency in ordinary use, and, in many cases, apparently the people were not even informed of any change whatever in the new money. It is, in fact, only through intercourse with other countries that any changes in the material of money can possibly affect prices. In an isolated community, the value of the ticket that passes current is of no consequence; as in Japan, for example, where gold coins passed at about a fifth part of their international value, till the country was opened to foreigners. But the moment that the material of money is used as a transferable commodity, passing from state to state in exchange for goods, and

having open markets at the different mints, then the equalisation of its value will affect the prices of those goods for which it is exchanged, and counteract any ordinary arrangements of circulation that might otherwise prevail within separate countries.

For example, when France reduced her coinage so much more rapidly than England, the same nominal price got by her merchants for silk goods or wine from a foreigner, was much better payment than from a native when paid in home currency. But the result would be that the native would simply find the price advanced, or else the silk and wine would be sold past him. It should be remembered, however, that it would take a large difference in the coinage to remunerate the French merchant for the additional expense of exporting his goods. The prices of imports would also be affected by the deficiency in the reduced coinage, so that any foreign goods brought into France would be raised in price by the mintage regulations. These remarks apply to goods imported or exported merely, and, as regards the latter, only to places convenient for exportation; but the foreign commerce of those days was so trifling, and communication was so difficult, that the coinage may have been reduced to a mere fraction of its ancient standard before any effect could be produced on prices within the interior of the country, or in the case of articles that could not be used for foreign trade.

In the case of Scotland, we have seen how impossible it was found to prevent the lighter coins passing as good payment on the English side of the

border, and there is reason to believe that the earlier reductions had no effect whatever on the usual rates at which commodities were sold in that country.

We find, from MacPherson's *Chronological Table of Prices*, that in 1329, in Scotland, a horse sold for 5s. to 13s. 4d; an ox for 10s.; a sheep for 1s. 2d. to 2s.; a boll of meal at 1s. 7d., of barley at 2s. 5d., and of oats at 11d. Compare these with the prices of 1424 in the reduced coinage, when a horse is said to be worth 13s. 4d.; an ox, 6s. 8d.; a sheep, 1s.; a boll of rye, barley, or peas, 1s. 4d.; and of oats, 6d; and it does not appear that prices changed with the change in the coin. Even when an English silver penny was ordered to pass for three pennies in Scotland, a few years after the date last given, there is every reason to believe that the same weight of silver purchased three times more commodities in Scotland than in England. Nominal prices, as stated in pennyworths, seem unaffected by the alteration in the metallic standard down to that period, and the reduced Scots coin, with all its changes and its regulations, still passed as good payment for the same amount of commodities as of old, and even probably as the equivalent coin passed for in England.

But this agreement in nominal prices, while the coins which represented such prices had diverged in metallic value, could only be kept up by the difficulties of conveyance, and the absence of free intercourse. At points adjoining to each other, a difference in the weight of the coin must have produced some difference in the price which it represented. When an English penny paid for a penny's worth on the

south side of the Tweed, and for three pennies' worth on the north side, according to the regulation we have quoted, it is easy to say which of them would supply the money and which the commodities. A compromise would of necessity have to be arrived at, and the English penny, which may have paid for three pennies' worth at Aberdeen or Perth, would perhaps be payment for three halfpennies' worth at Berwick.

As the divergence in the coins increased in a still greater degree, these effects would only be carried farther and farther, till, by the time that an English penny became a Scots shilling, the ancient nominal uniformity in price must have disappeared entirely, except in extremely remote parts. We have already seen that there is nothing to prevent any isolated place having a range of prices, or a standard value for coins, very different from other countries, till the isolation be broken up by communication and conveyance, and then the general range of prices spreads not only in labour and commodities, but even in the material of which the coins are made. The result is found to be, that in adjoining districts the equality of values asserts itself in an equality of metal that is transferred in payment. Thus the English penny and the Scots shilling must have paid for the same article along the border line, and nominal prices must have advanced nearly twelve-fold on the Scottish side; but the farther a buyer went northward, he would be likely to find the shilling buy more articles.

As regards the effect of the reductions in the

coinage on prices in England, we cannot trace any result whatever. The penny, the shilling, and the pound (so-called) of the present day, seem to be the legitimate and uninterrupted successors of the penny, the shilling, and the pound of William the Conqueror, in so far as that they have always paid for a penny's worth, a shilling's worth, or a pound's worth. Nor does it seem that at any period—save in a few exceptional cases, which established no general rule or practice—was the penny's worth or the shilling's worth ever made more or less on account of a change in the coin. Since the first issues began to show traces of tear and wear, the current coins that have passed unchallenged from hand to hand during these 800 years have probably never come within 20 per cent. of perfect uniformity. None of the mintage reductions in weight ever exceeded the variations that might be found in existing issues. Nor do the goods that were suitable for import or export seem to have been affected by the value of the foreign coins that competed against us in buying them. If anything, prices seem occasionally to have been lowered rather than raised by the quality of our coinage. Our conclusion therefore is, that whatever increase of prices may have been experienced during the alterations in the coinage, must be accounted for not by that, but by other causes.

CHAPTER VIII.

The action of Exchange—Illustration from the war at the close of the 17th century—The Double Standard—Conditions necessary to secure uniformity of value in coin and bullion—Effect of the Bank Act of 1844 upon the value of Gold—Different position of Silver.

HAVING thus examined, in various aspects, the changes in the value of money, and found that in its currency value a more general uniformity has been maintained in England than in France or in Scotland—also that an approximate uniformity in the market value of bullion was obtained by the action of the old European banks and the mintage regulations of various nations, especially those adopted by England in 1717—we may remark that the great desideratum, in all arrangements for the circulation of standard money, is that its purchasing price at the mints should steadily conform to its issuing price. As the latter is, by its nature, of an enduring and permanent character, the desirable point is that there should be a corresponding uniformity in the price of bullion, so that there might be no fluctuations in the value of the monetary metals as international commodities. It is quite evident that there have been great variations of that kind, notwithstanding the approximate standard values to which we have alluded, and it seems to be usually supposed that the real cause of these fluctuations has been the

same as in the case of other commodities—namely, a variation in the supply or in the cost of production. But fixed prices and open markets prevented these influences from having any effect on the monetary metals, and the true disturbing element has been the action of exchange. In that element originates the great difficulty of maintaining uniformity between the values of international money and the money of home circulation.

Token currency is in a measure withdrawn from its influence, and reduced to the same rank as mere paper money; but coined money of full intrinsic value, according to the accepted price of the metal, is continually liable to be placed by the action of exchange in the same category with articles whose value has become inflated by the urgency of demand. The bill drawn against any consignment of coin or bullion by an exporter sells on exactly the same terms as any other bill; and if exchange be high in the exporting country, the coin may bring a premium of five, ten, or twenty per cent. beyond its value as mere currency. Any general agreement among the mints to receive bullion at a fixed price does not prevent the movement we have just described; but although the premium thus obtainable may at any moment withdraw the standard money from current use, and elevate it to a higher and more urgent employment, yet the general agreement prevents it from becoming depreciated below the level of its value as currency. The fixed price gives a limit to the downward fluctuation, but not to the upward. Although silver bullion shows a departure from this

rule during the last few years, we shall regard that case as exceptional for the present, and deal with it afterwards.

In modern times, when standard coin is thus forced out of the people's hands in order to make it serve for international payments, it has been found most expedient to adopt paper money and token currency as substitutes; but in former periods, when such substitutes were only partially available, the coins in use were "culled," to use the technical expression, and the best of them withdrawn for export, while the worst were left to circulate.

Perhaps the most interesting case of that kind is to be found in the history of the war between England and France in the reign of William the Third. The events of that period produced the first valuable discussion on monetary affairs which has been handed down in our literature, and their various aspects are depicted for all time in the graphic pages of Macaulay. Circumstances have given us perhaps a clearer and more definite picture of the monetary movements of that period, and their effects upon society, than we possess regarding even the more recent experience of the Napoleonic wars.

Some of the leading points have been dealt with closely and carefully in a very valuable work lately republished by the Bank of England, and originally produced in 1805 by the first Lord Liverpool, which we have already quoted, under the title of *The Coins of the Realm*. The most important passages in that work, which refer to the events now under our notice, are contained in the chapter on "The

great inconvenience from fluctuations of relative values." They are too long to be quoted here, but we can give a brief account of how matters stood, and what the common explanation of them has been, on which we have some remarks to make.

First, we note that in the year 1695 the war with France was being prosecuted at great expense, and much difficulty was found in getting bills or money to pay for our expenditure on the Continent. Accordingly, the exchange was raised in London from twenty to twenty-five per cent. Next we find that silver bullion was advanced under these circumstances from 5s. 2d. to 6s. 5d. an ounce; many commodities became dearer, the best of the silver coins disappeared, the currency in use was extremely bad—being reduced to little over a half of the standard weight—and many base coins were in circulation; hence arose disputes between buyers and sellers, as sometimes the coins received could not be got rid of. Meantime, the guinea circulated at an advancing rate, till it reached thirty shillings, which was more than thirty per cent. above its regulation value. It was in such a condition of affairs that a renovation of the currency was commenced, and in a few years nearly seven millions' worth of silver coins were issued. These were all exported by degrees, or disappeared; and in 1717, which was little more than twenty years after the commencement of the renovation, Sir Isaac Newton, then Master of the Mint, declared that silver coinage was so scarce as to be on the point of commanding a premium. At his suggestion the guinea was proclaimed legal tender

for 21s., and as the export movement had died away, the fluctuations between gold and silver ceased.

The usual explanation given and accepted, regarding these movements, has been, that the reduced and deteriorated coinage was the origin and cause of the whole disturbance. That was supposed to be the reason why exchange was so high, why commodities advanced, why the guinea went to such a high rate, and it obviously was the reason why buyers and sellers quarrelled over their bargains. But it was pointed out that, if the exchange had been regulated by the weight of the coins in use, it should have been from forty to fifty per cent. against us, instead of only twenty to twenty-five. In the same way, the guinea should have rated at 40s. instead of 30s. Again, it was found that the exchange did not at once come back to par, nor did the price of silver bullion fall to mint price, even when the standard currency was once more in the people's hands. Various discrepancies of this kind were discovered, which perplexed the most careful enquirers, and Lord Liverpool writes about them as follows:—"Whatever may have been the causes of these strange incongruities in the value of the gold and silver coins, and of the price of bullion with reference to these coins, as before stated, they serve at least to prove that the events which then happened by no means corresponded with the conclusions which, in Mr. Locke's opinion, resulted from the principles laid down by him, and on which he so much relied. They afford also strong reason to infer, that there are other causes which may sometimes influence the value of coins while they are

current only within the realm—as well as the price of the precious metals in reference to them—besides the intrinsic value of the metal in such coins."

We have no difficulty in submitting an explanation, in accordance with our findings in these pages, that seems to clear up the whole matter. England at that time suffered from continuous adverse exchange, caused by the drain on her resources from the Continent, which was largely in excess of ordinary trade requirements. This state of exchange not only drew away the best of the silver and gold coins, which could be exported at a profit, but stimulated all other exports as well, and raised the value of exportable goods. Not only so, but every article imported had to bear the charge of advanced exchange, and was raised in price accordingly. The excessively deteriorated coinage was the result of a careful process of weeding out every good coin, and the temptation created for base issues produced its natural consequence in the uttering of false money. It was not to be wondered at that people quarrelled over their payments, and bitterly complained of their dear purchases. As to the price of bullion, it appears to have been regulated exactly by the rate of exchange. When the latter was at 25 per cent. premium against England, silver was worth 6s. 5d. instead of 5s. 2d. an ounce in London. The bullion was a commodity, and the bill drawn upon those to whom it was consigned sold for 25 per cent. of a profit; consequently, those who dealt in it were willing to give the difference between 5s. 2d. and 6s. 5d. an ounce in order to get supplies. The state of

the currency had nothing to do with this rate; it was the ordinary money of account that was quoted; and if anyone had been foolish enough to make a payment or consignment of the most reduced currency, they would have suffered a loss by doing so. The only coins exportable would be those that came within 20 to 25 per cent. of standard weight. As to the guinea, its value became slightly more than the proportionate value of silver, estimated by weight. This would naturally result from the inability to get more good silver coins extracted from the circulation, and the competition between home users and foreign exporters to get the benefit of its services. When the new coins appeared, they were of course sought for above all other commodities for exportation, and thus the whole of the fresh coinage gradually disappeared, and the price of bullion only came down by degrees as the exchange approximated to par. The settlement which was effected a number of years afterwards, on the suggestion of Sir Isaac Newton, was facilitated by the narrow point of divergence in these movements which had been brought about by the course of events for some time previously. Thus the problem seems to admit of easy solution. The whole episode may be regarded as one of the most interesting and instructive in the history of our commercial and monetary arrangements.

But it may well be asked, Why should not the similar experiences during the Napoleonic wars, a century later, be yet more suitable for study, considering the comparative recentness of the events,

and the greater supply of materials available for information? Unfortunately, the reply is, that the financial and monetary affairs of the later period became surrounded by the embittered associations of a controversy regarding bullion and bank issues, which exceeded all ordinary disputes in its vehemence, pertinacity, and diffuseness. The controversy only ended with the Bank Act of 1844. And for the last quarter of a century scarcely any writer has ventured to refer to the so-called "currency question," except by way of mere passing allusion, and with a half-formed apology for doing so.

It was a characteristic of that controversy, as of many others, that, though important facts were adduced and relied upon on both sides, the real point of divergence from which the different lines of argument shot continually apart was never clearly traced. Both parties seem to have taken it for granted that the prices of commodities depended—at least temporarily—on the amount of currency available to purchase them. From that principle all the inferences of the bullionists were logically drawn, such as that the expansion of the Bank of England issues would affect injuriously all trade, all prices, all exports, all exchanges—everything connected with the business of the country; consequently, that the bank-note system of that time was a pernicious and unwholesome excrescence on the national commerce.

It was easy to bring forward facts and results which were directly opposed to such inferences; but so long as the false premiss remained unchallenged, and so long as it was not shown clearly that the amount

of currency in any country is a mere attendant on its commerce, and has no more controlling effect than the number of bridges across a river has in compelling people to cross it, the point of real divergence between the two parties never was clearly seen.

Thus it happened that the battle was waged so long, so bitterly, and so indecisively, ending in mere weariness of the contest, as the one side could never bring conviction home to the other. Under these circumstances, we regard the events of that period as unsuitable for detailed illustration, seeing that they are surrounded by debatable matter at every point.

Returning to our consideration of the international movements of the precious metals, we have seen the effect of a general fixed price for gold and silver bullion, and found that the principal cause of movement now in these metals is the fluctuation of exchange. It is to be observed, in addition, that sometimes the influence of exchange affects one metal and sometimes another. Thus, in the pressure of payment for cotton to India, while America was closed to us during the secession war, silver was specially in demand, and was largely withdrawn from France in order to obtain the premium afforded by the state of the Indian exchange. On other occasions, when heavy payments have had to be made to America, gold has commanded a better premium there than silver. These discrepancies, which originate in the difference of metal that prevails in the currency of different countries, have been regarded as a

difficulty in the way of adopting what is called the double standard. The double standard is simply the endeavour to use both gold and silver coins at such relative values as may agree with their accepted value as bullion, and thus render them both standard money for all purposes of home and foreign use. Such a scheme is most desirable and useful, as gold and silver are a great assistance to each other in making up a complete system of currency, serviceable alike for large and small payments; but while it is easy to make them pass current at a fixed ratio within the kingdom, it is not always so easy to maintain their uniformity in foreign payments.

The double standard system worked fairly well in France and America for many years; but it has not been in free operation in this country for a century, and was deliberately given up by the arrangements of 1816, which reduced silver money to a mere token currency of limited use, so as to prevent it from accumulating, or being paid over in large sums and exported. Since England reduced the legal tender of silver by tale to £25, in the year 1773, there has been little or no manipulating of the two metals in foreign payments from this country, such as had been occasionally practised up to that time.

But seeing that it was as easy to give a fixed price and open market to silver as to gold, and as there was no other influence tending to produce divergence in value or counter currents of the two metals, except the occasional excess of demand from a silver-using country such as India, or a gold-using country like America, when business happened to

flow in their direction, there was no sufficient reason why a double standard should not have been generally adopted, and made to work with safety a few years ago. While the same conditions existed for maintaining the standard value of silver as of gold, the action of exchange was nearly the same upon both, and the occasional variation in demand for the one metal or the other was of no real consequence. But we have changed all that now, and the force of circumstances has probably for ever displaced silver from the position it formerly held.

It is of the utmost importance to ascertain the different conditions under which silver and gold are now placed, and to understand clearly how uniformity has been maintained regarding the latter, both in the "purchasing" and the "issuing" price at the mints, while the former has shown an enormous divergence in these respects of late years. We have already seen that this kind of uniformity was established in some measure by the action of the Bank of Amsterdam in 1609, and that of the British Government in 1717. But the revolutionary movements in Europe at the close of the last century unsettled all these former arrangements, and it was in France that fresh regulations were made, in the year 1803, which virtually renewed and maintained the old standard values of silver and gold. The later mintage regulations of America had a similar effect, though they at first slightly over-estimated, and then afterwards under-estimated, the proportionate value of silver. The regulations of the Indian mints also served to maintain for it a standard value; but the British

mint was virtually closed to that metal. All these arrangements, however, were controlled as much by usage as by specific ordinance, and were adapted only for the usual small production of the monetary metals, which was all that people dreamt of in those times. In fact none of the regulations referred to was so complete and effective for maintaining fixity of value, and even of resisting to some extent the action of exchange, as those which the English Bank Act of 1844 applied to the case of gold. It is of some interest to consider the chief requisites of such arrangements.

For centuries the attempt had been made, and not altogether without success, to give fixity of value to bread, cloth, beer, and other things, by simply ordaining the prices at which they should be sold, and, still more effectively, by giving the option to tenants and others of paying in kind, or at a conversion price. An illustration of these statements will be found in the lists of the prices of grain quoted by Dr. Adam Smith. In a similar way, and by the prohibition of export, the value of the precious metals was also sought to be kept uniform. But such attempts at regulation were in the end mere idle failures. The only conditions under which continuous uniformity in the value of bullion or any other commodity can be maintained are, first, that there be a fixed price in an accessible market; second, that there be no restriction as to quantity; and, third, that the payment continue to be satisfactory. These conditions are complied with, in the case of bullion, when one or more of the leading

commercial countries gives unrestricted mintage, and is able, even under difficult circumstances, to maintain a favourable exchange with foreign countries.

It is not to be understood that these conditions are absolutely or in all cases effective; they only apply to the usual movements of the commercial world, and are liable to be set aside locally by the action of exchange if there arise a pressure of demand from any quarter exceeding the fixed price of the open market.

The requisites we have named for giving uniformity of value to metallic money, were never so fully secured in any country, or at any time, as by the regulations of the Bank Act to which we have referred. First, there was the position of London in the commercial world, which gave it the utmost accessibility as a market. Second, there was the fixed price of £3 17s. 9d. an ounce, payable at once in notes, or later on in coin, and by means of either of them in goods, as both had abundant and ready currency. In addition to the outlet through home purchases by currency, the bullion was useful to pay for England's immense importations, and thus an outward passage was kept open for any quantity of gold likely to be received. Then there were the abundant manufactures of this country available to pay for the importations of the metal, thereby forming a guarantee against the risk of an unfavourable exchange, which would have at once destroyed the prime requisite of a satisfactory payment. In all these ways there was provision made for receiving and passing on unlimited supplies, and

at the same time maintaining the fixed price without any drawbacks.

Even at the moment of passing the Act, which put England in this responsible position, there could have been no anticipation of what a severe test she was soon to undergo as to her power of maintaining it. There was, in truth, no idea in the minds of those who promoted the Act that it would involve any test, or impose any strain whatever on the commercial energies of the country. They meant, above all things, to do away with every form of disputed and fictitious currency, and to let the amount of gold in the country be the amount of money in the hands of the people. So that, if the natural course of trade brought in gold, it would increase the money; or, otherwise, the money must be taken out of the hands of the people before the gold could be sent away, as, under the new system, the gold lay under the notes, and the notes covered the gold; they were identical. All other aims were subordinate to that main purpose. They had no conception that they were making London the ruling market for that precious commodity, which was about to be produced at a rate unheard of, inconceivable, and far beyond the power of any one kingdom to absorb; thereby necessitating a vigorous dispersion of the metal over all the nations of the earth.

At the time the Act was passed, the total annual production was about four millions throughout the world. It had ranged from one and a-half to two millions from the beginning of the century, and there was nothing in these figures to attract attention, or

give a moment's uneasiness to those who authorised the purchase in London of all the gold that might or could be offered.

Three years afterwards, the gold mines of California were discovered, and in 1848 the production rose to thirteen millions. In another three years came the Australian discoveries, and in 1852 the production was estimated at thirty-eight millions. During the ten years that preceded the Bank Act, gold was produced to the extent of about thirty-five millions; in the ten years that followed, the production was about one hundred and eighty-five millions, and in the next ten years two hundred and fifty millions. A part of this excess was taken up in New York, and a part in Paris, but London was the ruling market. *There* was to be found the fixed price and the unlimited opening. Though only a portion of it may have passed through the Issue Department—being simply deposited there to be ready for shipment—and the rest shipped at once on arrival, yet the regulations of that Department controlled the whole movement. Had there been no sufficient means of getting the importations disposed of, the notes issued against them would have been forced into circulation, and displaced the use of cheques to an excessive degree. The amount of notes issued might have become four or five times greater than is at present found necessary. But all the nations of the earth were eager buyers of this convenient material, which affords such a useful condensation of bulk and value for large payments. Besides, the world was then at peace, and trade prospered everywhere. Britain

shipped her millions' worth of manufactures to pay the miners in California and Australia, then poured her golden store into the treasuries of India and other nations in exchange for their special products. The current of bullion inward and outward was great; but there was a limit to the movement which existed outside of herself, her commerce, or her enterprise.

Other nations could only increase their stock of gold by degrees. They were not passing it out again like England. Thus it happened that, while the produce of the mines kept pouring in at an increasing rate, after a few years the power to disperse it began to fail. In 1852, the amount of notes that were issued against the gold deposited rose steadily from fourteen millions to nearly twenty-two, and there was a threatened surfeit of the precious metal; but the outbreak of war with Russia caused a large exportation beyond the requirements of trade, and helped to scatter the accumulations. By the time that this fresh movement had spent itself, other circumstances occurred to help the dispersion of the gold, and by degrees the production diminished. Meantime, the capacity of other nations to receive the surplus supplies went on increasing, and there are ample powers of absorption still in reserve to use up the present rate of production for many years.

Such is the recent history of an article which happened incidentally to have provided for it an open and inexhaustible market, a fixed price, and satisfactory payment; and this fortunate arrangement for its disposal was just completed a few years

before its supply was enormously increased at a greatly diminished cost. As regards some portion of the supply, it is almost a stretch of language to say it was produced. Common language says it was found, picked up. Cost of production had no influence on the price under such circumstances. The result was something unexampled in the history of any commodity, as no surplus weighed upon the market or affected the value, nor did the trifling cost of production cause a single sovereign to pass for less or more than the previously existing rate.

It may perhaps be thought that there is a fallacy underlying this reference to cost of production as being without influence on the accepted value of gold. It is usual to say that it is the cost of the dearest that rules the market; but it is more frequently true that the cost of the cheapest is the regulator of value. Either may be true, according to circumstances. If the supply barely reaches the level of demand—as, for example, was so often the case in former times with agricultural produce, that it came to be regarded as the normal condition of such commodities—then the price will be equal to the cost of production at its highest limit; but if supply be beyond the level of demand, as is the constant tendency of the great bulk of commodities now, then the influence which cost of production has upon selling price will be derived rather from that part which costs least. Applying these deductions to the value of gold, so long as that article had a demand that exceeded the supply, the cheapest production would have had no influence; but so soon

as demand was fully met, the cheapest production would have controlled the market, but for the regulations we have just described. It may be added, in a sentence, that the price of an article set aside for a special purpose, like gold or silver, and dealt with by special regulations, is a factitious price, and in no sense a competitive or ordinary market price, so long as the special regulations hold good. Moreover, all mintage regulations are of the nature of special regulations, whether they succeed in maintaining perfect uniformity in value or not.

We have now completed our consideration of the case of gold in relation to the fixity of value, which is so necessary to a standard form of money. Turning to the widely different history of silver recently, we have already seen that conditions somewhat similar, though less complete and exact, were in force to give that metal the same uniformity; but when a greatly increased supply of it was suddenly produced from the mines within the last ten years, instead of finding open markets with fixed prices and satisfactory payment for unlimited quantities, as in the case of gold under similar circumstances thirty years ago, there has been only one really open market for it since 1874. Up till that year, France was open to give unlimited mintage for silver, on behalf of herself and the other smaller states which were joined with her for currency purposes in what is called the Latin Union; but a restriction was then placed upon that freedom, and as specie payments in America were at the time suspended, the only country which gave unlimited mintage to silver was India. For a time

it bore the burden; but not being able, like England, to extend its productions with such elasticity as to meet a sudden increase of financial liabilities, it was unable to maintain a favourable exchange, and that important condition of fixity in value broke down completely.

We had, in a previous chapter, been brought face to face with the problem of how it was that India should be distressed for lack of exports, and yet not be able to send forth her enormous stores of silver. It was set aside till we should consider the international movements of the precious metals in certain aspects, and now we are ready to deal with the problem.

CHAPTER IX.

Condition of India—Select Committee of 1876—Mistaken impressions regarding depreciation of Silver—Committee's Report—Supposed immediate cause of the fall in Silver—Evidence of Mr. Bagehot—Error in supposing that Indian exports would speedily be in excess—Further mistake in supposing that inflow of Silver would raise prices—Theory of Bi-metallism.

THE position of India we found to be that of chronic adverse exchange, caused by a rapid and heavy drain on its resources in excess of its powers of production. This creates a perpetual pressure, tending to enhance the cost of its imports, and bestow a bonus on the purchasers of its exports. The point that arises is, to explain why she cannot freely export her abundant treasures of silver coin, and so restore an equilibrium.

India, as we have seen, holds a peculiar position among other nations as regards the receiving and coining of silver. She has become the only country that gives unlimited mintage, or notes, on the demand of any one who brings the bullion. The coins given back are equal to the usual standard, and are legal tender all over that country. These coins can still be freely circulated there, so that the bullion importer who receives them from the mint can pass them to an unlimited extent in exchange for commodities.

But if an importer of ordinary goods, who is at present paying somewhere about 15 per cent.

extra for his remittances, should offer these coins as payment to his friends in other countries, he finds them depreciated in value to a degree very closely corresponding with the premium he has to pay for sterling bills. It is not so with gold. That metal will still bring its standard price in other countries, and the bill drawn against a consignment of it from India would sell at the full premium of exchange, so that gold is at present worth about 15 per cent. more there than in London or Paris. We have therefore to trace in detail the various causes which have produced this difference between gold and silver.

A bullion dealer in any part of the world—say in San Francisco—may ship gold to London, and the bill drawn against it will sell for something very near par value. But if the same dealer sends gold or silver to Calcutta, the bill he draws in that case will only sell at a reduction of some 15 per cent. A few years ago, if the Indian exchange had been thus found unfavourable, the destination of the silver might have been changed to Paris, and the price got for the bill would have been as good as if drawn on London. But the French mint is now closed to silver importers. It is the same at all the other mints throughout Europe; they may buy silver, according to their own ideas or requirements, but they are bound by no law to receive what is offered. So our bullion dealer, after trying them all, and selling a little here, or a little there, is probably driven at last to pour the remainder into the Indian mint, and take as much for his bill as he can get. Thus the unlimited market there causes all the surplus of

silver which remains after supplying other countries to be poured into its circulation.

Turning now to the rate of exchange with India, which thus controls the value of silver, we find that for many years there had been an increasing supply of commodities for railways and other works sent into that country, with no present return except the paper bonds that owned the debt. But the time came when the return had to be made in substantial exports, and this demand happened to come with full force at a period when the value of these exports had gone down very much in other markets; so that the quantities had to be increased on both these accounts to make up the sum that was due. Besides, there had been loans granted from England to provide for the deficiencies of famine years, and the interest had to be added to the other payments that called for additional exports. In short, that unfortunate country has suddenly, within the last few years, had its yearly tribute of payment to the English Government run up from four or five millions a-year to sixteen or seventeen. In the struggle to supply produce sufficient to pay this amount, and to cover its needed imports as well, it is yet more overburdened by having to pay for an influx of silver it does not want. And that is not all. There are funds in the country sufficient to make good the temporary reverses of a few years; but these funds are nearly all in silver, and there is not an open market for that silver anywhere but at its own mints. While 100 rupees will buy as much rice, or grain, or oil, or as good a house as ever, in Calcutta and Bombay, let them be sent to London,

where they will pay the nation's debts, and the 100 rupees are only worth about 85. Had the currency been of gold, 100 rupees would have been good for 100 rupees anywhere; but with silver rated at the reduced allowance of a bill drawn upon India, the rupees are as good to be kept where they still maintain their currency value, as to be exported under the ordinary conditions of exchange. A limited quantity of the metal may pass out, but there can be no free export of it under these circumstances. There is a want of buyers for that article.

Thus we have explained why India cannot eke out her exports with bullion. She cannot bring the exchange to par by payments of silver. And, as if all these misfortunes were not enough to overwhelm her, the recent fertility of the mines in Sierra Nevada, and the sales of silver by the German Government, threw an additional quantity of that metal on the market, thereby adding to all the other pressure that lay on her resources.

The hardships of that unlucky country may be summed up as follows. We find that she is burdened by a heavy debt, by pensions and allowances, by capital on loan for railways and other works, all of which are held by outsiders, and impose on her an obligation which must be paid by exported commodities to the extent of sixteen or seventeen millions sterling per annum. We find, in addition, that she maintains an open depôt for all the surplus silver of the world, which has lately shown very considerable increase, and which also must be paid for in commodities; that she is only able to import

manufactures and other necessary articles to the extent of two-thirds of her exported produce, and on these imports has at present to pay a duty of about 15 per cent., which may amount to some seven or eight millions sterling in addition to all her other taxes. We find, moreover, that India is not a country which is rich in metals or coal, or capable of having its resources rapidly developed; that the people are poor, lacking in physical energy as well as in capital, and increasing very rapidly in numbers. They have an enormous mass of coined money, stored away in small hoards of silver, which they cannot send out of the country without a serious loss; and the prospect is, that this mass of metal may have to be set aside during the next generation as no longer standard money, and sink into the position of a mere token currency, passing, it may be, at three times its natural value, and greatly more abundant than the monetary purposes of the country require.

A state of matters such as we have described loudly called for inquiry. It was in the spring of 1876 that the great fall took place in the Indian exchange, which was accompanied by a corresponding fall in the market value of silver. The Government of the day was alarmed and inconvenienced; accordingly, they secured the appointment of a highly-qualified Select Committee of the House of Commons to ascertain, if possible, the nature and causes of this national disaster.

The inquiry was commenced at once, and prosecuted with great energy and vigour; a number of officials and experts were examined, who supplied

the facts of the case as distinctly and fully as could have been expected. Only one gentleman was questioned as to the explanation which Political Economy could give of the state of matters, and some of his remarks will deserve our attention before we leave the subject.

The instruction given to the Committee was "to consider and report upon the causes of the depreciation of silver, and the effect of such depreciation upon the exchange between England and India." The terms of this instruction embodied the current opinion, that the condition of the silver market was the cause and not the result of the unfavourable exchange. It ought to be mentioned that the attention of the public had been forcibly called to the movements of the German Government, which was at that time taking advantage of the war indemnity paid over by France to do away with its silver coinage and put gold in its place. This necessitated the sale of an unknown quantity of the former metal, and the very rumour of such a movement caused every one to expect disturbing influences as a result. At the same time, it was known that in some mines of the Sierra Nevada range great finds of silver had been obtained, and speculation was raging as to the returns of Comstock lodes, Emma mines, and other such veins of precious metal. Thus all eyes were fixed on these disturbing agencies, and the unfavourable exchange with India was taken for granted to be an incidental result. Mr. Goschen, the chairman of the Committee, seemed to be the only person who had a doubt on the question. When the evidence

was gone into, and looked at from both points of view, the whole weight of the testimony was to the effect that the increase of payments by the Indian Government to this country, and the diminished value of the exports from that country, were the primary causes of the fall in silver. This is the point we now draw attention to as being in harmony with the explanation we have given above.

The report of the Committee starts off with a curiously inconsequent statement, a statement which, in fact, embodies the two points of view without attempting to decide between them.

It says—

"Your committee are of opinion that the evidence taken conclusively shows that the fall in the price of silver is due to the following causes—

"1st. To the discovery of new silver mines of great richness in the State of Nevada.

"2nd. To the introduction of a gold currency into Germany in place of the previous silver currency. This operation commenced at the end of 1871.

"3rd. To the decreased demand for silver for export to India.

"It is, however, an important and remarkable fact, to which it may be convenient to call attention at once, that though the increased production of silver in the United States is a fact beyond question, no actual increase of imports of silver from the United States to Great Britain has taken place since the year 1873, when the average price for silver was still 59¼d. per oz.; indeed, the amount of the imports into Great Britain from the United States for the

year 1875, viz., £3,092,000, is the smallest since the year 1869. In the same way, though the new currency laws of Germany affected a vast silver coinage, the sales of silver actually made, up till the 26th April in the present year, do not appear to have exceeded £6,000,000, distributed over several years."

In other words, neither the first nor the second alleged cause had, as a matter of fact, any sufficient opportunity of producing the effect complained of, up till the time of issuing the Report. The third alleged cause was the one in actual operation, and was in itself the result of increased Government payments, and a fall in the value of exports, which affected the silver market through the exchange.

The erroneous nature of the view taken by writers and members of Parliament was not universally shared by those engaged in the actual transactions. At the time of greatest fall, from March to July, 1876, such remarks as the following occurred repeatedly in leading bullion circulars:—"Owing to advices of lower exchange from India, silver was depressed;" or, "Exchange having improved in Calcutta, the price of silver advanced." A passage in *The Economist* of 7th October following, which is reproduced in Mr. Bagehot's *Depreciation of Silver*, p. 86, is also conclusive as to the opinion of "city people" regarding the priority of action, although it was not written in that sense. The paragraph is as follows:—

"But the increase in the Council bills provided a competing remittance with silver; if a merchant wanted to make a payment in Calcutta, he had the

choice either to buy bills or send out silver, and of course so much less silver was sent. The effect was the greater because the Government of India must bring their money home from India, and therefore must sell their bills; whereas silver, like any other commodity, may go to many markets, and may be held when its price falls. This is the reason of the saying, '*the price of Council bills rules the price of silver; not the price of silver that of Council bills.*'"

The report of the Select Committee, based as it was on the grounds we have quoted, was obviously inconclusive, and pointed out no definite line of action. Although it was framed in harmony with current opinions and an erroneous theory, yet it stated clearly the facts that did not harmonise therewith, and was (perhaps necessarily) defective in making no attempt to fit them into any consistent explanation.

After examining with some minuteness into the share that various causes may have had in affecting the exchange, we have found it impossible to make an exact adjustment or description of their separate influences. The statistical returns are too general to show minute changes. None but those who were personally engaged in the buying and selling of Indian bills during the period of fluctuation can tell how the movement was actually precipitated; but the fact is apparent that, during the spring of 1876, there was an excessive demand in Calcutta, Bombay, and Madras for bills on Europe. There had been a slightly pressing demand for some months before, and the probability is, that many persons who had

money invested in India took fright on account of the continuous adverse exchange—which at that time was slight, but threatening—and determined to remove their investments to European centres. This combined action may have brought matters to a crisis.

The tendency on the part of writers and debaters to look chiefly at the condition of the silver market, and to regard it as the primary cause of all disturbance in Indian affairs, has been productive of various evils. It has prompted and encouraged schemes of violent interference with the Indian mints and Indian currency—schemes that would not merely affect that dependency, but would upset the monetary arrangements of all Europe, by suddenly revolutionising the silver markets of the world. It has also had the effect of making the evil appear more dangerous and enduring than it probably is at present; and, above all, it has misdirected attention to wrong issues, and away from the actual movements that have been, and are still, going on.

From our point of view, the process of curing the evil evidently lies in an improvement of India's productive power, or in the prices of its produce, to such an extent as would enable it to export goods sufficient to pay for its yearly dues, its imports, and all the surplus silver that may be sent to it. It would be a great and immediate relief (though not an ultimate cure) if any other nation or nations would open their mints for unlimited supplies of silver at the usual coined rates of 15½ to 1 by weight of gold, and so relieve India herself of that onerous duty, and relieve her exchange at the same time by an outflow of the

metal; but no nation or league of nations could do so without some loss and a heavy risk at the present moment.

Although Germany has rid herself of the surplus silver coinage, and the Nevada mines are becoming less productive year by year apparently, so that the pressure of silver on the market is becoming lightened, it is to be feared that the world's wants in regard to that form of currency have become very fully supplied, and the surplus stock will be a dead weight somewhere. It is true that no definite limit can be fixed as to when any form of currency is in absolute excess, and probably all the nations of the world could put up with the inconvenience of using a little more silver by displacing other and more convenient forms of money; but the tendency is more and more to economise in the use of metal, and to adopt paper. There is an imminent danger of silver becoming a drug, even if Indian exchange were at par, and the Western nations willing to pass it freely through their mints.

Turning now for a moment to the theory of the Indian question which was submitted to the Select Committee, as showing what light Political Economy could throw on the case, we have to take up the evidence of Mr. Walter Bagehot, late editor of *The Economist;* a man of accomplished and thoughtful mind, and justly regarded as a high authority.

His theory may be presumed to be the orthodox one, as it was generally accepted without protest, and has been handed down to us in a permanent form, within the pages of his book on *The Depreciation of*

Silver. From our point of view, it is a strangely imaginary and fictitious structure, resting chiefly on the old idea that the prices of a country's commodities are regulated by the inflow or outflow of bullion, and that the imports and exports are in turn regulated by these prices.

The gist of Mr. Bagehot's views as submitted to the Committee, and elaborated more fully in various articles which appeared in *The Economist* during the year 1876, may be found in the following passage, taken from his book (page 3), and written in February before the movement had reached its full force:—

"The present problem is not to find the silver, but to find the use for the silver. . . . . Sooner or later, however, the ordinary laws that govern foreign exchanges will do it for us. The *consequence of the low value of silver is* that the rate of exchange is now 1s. 9¼d. per rupee (or less), the lowest, or almost the lowest, ever known. And this operates as a direct discouragement to ship goods to India. These goods are paid for in rupees, and when the merchant wants to bring home those rupees to England, he finds that they do not go so far as they used to do. He has to pay much more for every £1000 bill on England, and this extra cost destroys or diminishes his profit.

"Secondly, the same state of the exchanges is a direct premium on sending goods from India to England. £1000 received for those goods here will go further in buying bills on India than it used to do; in plain English, it will lay down more rupees at Calcutta in the same time than formerly, and this increase is so

much extra profit. By this combination, therefore, exports from India increasing on the one hand, and imports into India diminishing on the other hand, *before long a large void will be created*, which this silver set free from Germany will have to fill. The process will take time, but the effect will be inevitable. The tendency of this great import of silver into India *will be of course to raise prices*, but the degree in which it will have that effect, will depend on the degree in which it is counteracted by the causes which have intercepted its effect before—the hoarding habits of the people; the use of silver in ornaments (the ornaments being a sort of reserve fund to be sold in difficulty); the greater extension of silver in rude districts, where barter is still much used; and the general increase of trade, which rising prices always tend to quicken and develop."

We may also quote from Mr. Bagehot's answers in evidence before the Select Committee as follows:—

No. 1368. *Answer*—"The result of these two operations—of the encouragement of exports from India to this country, and the discouragement of exports from hence to India—necessarily is an increase of the balance which this country has to pay to India, and consequently a flow of silver to the East."

No. 1369. *Question*—"And is so far a counterbalancing element tending to raise the price of silver, as compared with the other causes which have been mentioned, which might depress the price of silver?"

Answer—"Quite so, and, I should say, a cause of even greater magnitude than any which tend to depress it."

Thus Mr. Bagehot starts with the popular idea that silver had become cheaper in itself, from the abundance of supply, and in advance of the influence of exchange; although, as a fact, the year which had just closed at the moment of most rapid fall, and immediately before the Committee's appointment, showed peculiarly small receipts of silver in India, and was entirely free from such pressure. Nevertheless, he begins with the depreciation in value of that metal as the first step; he then argues that this circumstance, having produced an adverse exchange and a consequent flow of exports from India, will make "a large void," and must be followed by a great importation of silver immediately. The flow of exports, which we also recognise as the result of adverse exchange, was not regarded by him as tending to equilibrium—a movement of the ship to right itself—but he thought it would go far beyond that, and exportation would become so excessive as to require large payments of silver into India to fill the void and pay for them.

We found the adverse exchange to be the consequence of weakness, of inability to make up sufficient exports, which defects it helped to cure; but that was only by putting an excessive strain on the producing powers of the country, and a heavy charge on the imports. Mr. Bagehot thought that a rapid and easy oscillation would take place, and the exports would be superabundant immediately. Unfortunately, that happy state of affairs has not come round yet, as India knows to her cost. The heavier shipments of silver, which were expected to follow the super-

abundance of exports, did certainly take place after Mr. Bagehot gave his evidence, but from a totally different cause; they were surplus stock of that metal which could not be disposed of elsewhere, and were poured into the Indian Mint, thereby increasing her indebtedness to other nations, and retarding the process of recovery. The silver was sent to India, and Mr. Bagehot was declared a true prophet; but the cause he assigned for that movement has never yet come into operation, and he misunderstood its nature completely.

But, further, it was considered by him that these additional supplies of silver, sent to pay for the overplus of exports, would raise the prices of all commodities. This is the key to his whole position, the pivot on which everything is made to turn, and it is the point we most earnestly contend against. The increased supply of silver, which actually went to India for some time after the Committee sat, had not, and could not possibly have, any such effect on prices there as he imagined. The facts are against him, and although he spoke in accordance with a recognised theory, the theory itself is an illusion. The silver that was sent only aggravated the symptoms of disease, and continues still to make Indian imports dearer to the consumers, and Indian exports cheaper to the purchasers.

Had Mr. Bagehot strictly worked out his theory on all points, he should have stated that silver itself would at once rise to its normal price from this great absorption; and he declares that to be the natural tendency in his answer, No. 1369, which we have

quoted. This legitimate conclusion would have shown the weak point in his evidence more clearly, as it is obvious that silver has not advanced in the manner and to the extent that he indicated. But, in the exercise of a caution induced apparently by doubt as to how the theory would actually work out, he contemplates the possibility of silver being still depreciated after it has turned the tide of exports and raised prices all round. In continuance of his remarks, he goes on to say—

"When this rise of prices has taken place, the encouragements to exports from, and the discouragements of imports into, India will manifestly cease. The value of the rupee at Calcutta as against bills on England *may remain as it is now;* but the diminution of that value, as compared with former times, will be compensated by the greater number of rupees which the English exporter to India obtains for the goods which he sells there. The value of the £1000 in London, in purchasing bills payable on India in rupees, may be as unusually great as now, if we compare it with the past, but there will be a corresponding difficulty in obtaining the £1000 in London. The merchant in India will have to pay more for the goods which he sends to London, and in the end this loss will be equal to the other gain."

That is to say, the English exporter's *discouragement* will cease, as he will get the benefit of advanced prices in Calcutta, and the Indian exporter's *encouragement* will cease, as he will have to pay higher prices for his home produce. There is a double mistake here: first, in supposing that exchange on

London can remain high when exports are superabundant; and, second, in supposing that under such circumstances silver can be below its normal price.

The idea underlying these expressions is similar to the notion that prevailed in the time of William the Third, as already described, when it was thought that exchange was regulated by the condition of the English currency. Mr. Bagehot evidently thought that remittances may be dear in Calcutta, as a result of the low price of silver, and that both these things are apart from, and independent of, the abundance of exports.

The position of the Indian merchants, under such circumstances as he describes, would be peculiarly unfortunate. Importers are to hand over to those who supply them with goods the increased prices that they obtain for them, while they still labour under the burden of a heavy duty in their unfavourable exchange; and exporters are deprived of the margin that exchange gave them to work upon, by the advance in the prices of their home produce.

But it is unnecessary to dwell longer on the inconsistencies of a theory which is so confusing and unreal that the majority of business people have never attempted to unravel it.

Clear away the tangled surroundings of imaginary advances in prices, and consequent movements of exports, and the case stands as clear as any of the usual transactions in commercial life.

India has more to pay than she is able, and therefore every remittance she sends costs her an extra premium, while her customers get a bonus in taking

her produce. To send her more silver makes matters worse, as she must pay for it, although she does not want it. When she is able to pay for all she gets, her exchange will come to par, and imports as well as exports will find their level of prices in competition with the other markets of the world. Till then, silver will remain as much depreciated as her exchange, unless other nations are able to use up the production, and so take it off the market. When the point of equilibrium is attained, silver cannot remain depreciated if the present regulations of the Indian mints continue in force.

Before leaving this subject, it is only justice to Mr. Bagehot's memory to say that he was led astray in this matter by old theories. He had all the Economists at his back, and it is not without pain that one feels obliged thus to press home the mistake of a man who did much in his generation for the business people of this country.

It would be out of place to discuss here the various proposals that have been made, and pressed, but fortunately without success, to deal with the evils that have been described. Credit must be given to Mr. Bagehot, and still more to Mr. Goschen, for urging the postponement of all dangerous experiments. As might have been expected, the aim of these proposals is always directed to the improvement of the silver market, and the equalising of values in the coin and the bullion, or the prevention of a depreciation in the former corresponding to that of the latter. It has been proposed to introduce gold instead of silver, to issue notes on a gold basis, to close the mints as

regards the outside public, and reserve them for the coinage of such amounts (if any) as the Government might approve. It has also been proposed to re-coin the whole currency on a fresh basis, allowing 17 or 18 to 1 in weight of gold, instead of the usual 15½. We have already seen how impossible it is to get gold into India for any purpose, either for currency or as a basis for the issue of notes. All schemes that introduce the question of gold, must be postponed till the exchange allows of that metal flowing in by the mere course of trade. On the other hand, all schemes that put a stop to the coinage of silver at the demand of the public are likely to produce an incalculable effect on the general market for that article. The present reduction below its normal value might be increased fourfold, on the simple intimation that the Indian mints had been closed. What effect would this have on the silver currency of France or Italy? The laws of circulation allow a wide margin of divergence from the intrinsic value of metallic money; but would they not be overstrained if a sudden change were made in what had been a standard money, and its value in bullion were reduced to a fourth, perhaps, of its former price? What provision is there for contracting issues, and making the other arrangements necessary to reduce the silver coinage of these nations to a mere token currency? Would there be ample means of return to the source from whence the coins issued? Moreover, if silver were reduced to such a low price as would be probable on the closing of the Indian mints, what human skill could prevent the uttering of spurious money from

unauthorised sources over the length and breadth of that and other lands? The temptation created would be irresistible, and quantities of forged coins, made from silver no longer saleable, would be smuggled over the frontiers in spite of every precaution. It is indeed possible that, by such illegal and irregular means of using it up, silver may yet be prevented from reaching that lowest limit of price which might otherwise be attained.

The plans to be adopted in our Indian dependency should be to influence favourably, by every possible means, the exchange market, and not the silver market, in the first instance; then, perhaps, to reduce the silver coinage to a token currency by degrees, beginning with large payments, and making them non-legal tender in that form, besides giving facilities for substituting notes within trade circles. There does not seem to be any reason why a seignorage should not also be charged on the mintage of silver in the meantime, as that would do no serious harm to the other currencies of the world.

Returning for a moment to the question of a double standard—which we spoke of as being the most desirable form of monetary system, so far as regards metallic currency—it has been already pointed out, that the difficulty in working it lies in the discrepancies which arise between the current value of coin and the international value of bullion, through the action of exchange. We put aside the question till the conditions of uniformity in value for all external and internal purposes were considered. These conditions were found to be in operation as

regards gold, and to have been also serviceable as regards silver, till the limitation in coinage of the Latin Union, and the break-down of the Indian Exchange a few years ago, destroyed their efficiency.

This question of a double standard is much debated at present, on account of the state of Indian affairs, and the name given to the scheme that is advocated is *Bi-metallism*. The meaning and purpose of this title is to draw away the mind from the notion of a double or twofold standard of metallic money, which has always been associated with an *alternative* standard, in which there would be room for separate action on the two metals; and to embody the idea of a single standard, in which the two forms would be combined in every sense, except that of chemical mixture. Bi-metallism is meant to be a single standard in two metals.

The scheme that has been advocated under this title, is to make silver and gold alike in the monetary system of the leading commercial nations, by making them both legal tender to any amount, and granting unrestricted mintage in the various coins of each country, at a fixed ratio to gold. It is also urged, very properly, that the scheme should include a readjustment of the leading gold and silver coins of each nation, so as to make them harmonise in weight, and be readily exchangeable. Thus there might be a gold coin in England, in France, and in America, representing twenty shillings, twenty-five francs, and five dollars, and these gold coins be of uniform and exchangeable value. Not only would there be a uniform gold coin, but the silver coins would also be

made readily interchangeable. All the leading nations of the world would then be like the different provinces of one country; their coinage would be the same in everything but name and appearance, uniform and interchangeable throughout. By this means the fluctuations in the comparative values of the precious metals would be done away with; India would be relieved, and all nations would get the supply and the form of currency that they desire. The yearly production of these metals would be thrown into one great common reservoir, and left free to flow in whatever direction it might be most wanted.

Our position in regard to this scheme is clear enough. We not only regard it as having been feasible in itself, but have explained the conditions of uniform value in bullion, and shown how these conditions were set aside in the case of silver, while they were maintained in the case of gold. We have pointed out the temporary benefit that India would receive by such a scheme; but, notwithstanding all this harmony of opinion, there exists one objection, which seems to present an insurmountable difficulty. How can the leading nations be expected now to throw open their mints to the coinage of silver, when they have already as much of it as they want? The poorer nations of Europe cannot afford to buy any more, and those that are richer do not want to buy any more. Whatever influx there might be to any country would have to be paid for. The silver would not go to India; for the present it would flow out of it. And where would it flow to? To the

nations that could take most of it, and give good payment; the nations whose exchange would be least liable to be injuriously affected. Let the scheme of Bi-metallism be put into execution, and there would be a dead weight of millions upon millions of silver lying in London, Paris, and New York, or forced into currency throughout the provinces, within twelve months.

At the present moment silver is in excess. Were the Eastern nations again enjoying a favourable exchange, they could possibly absorb that excess without difficulty. But it does not appear likely that there will be again, in our generation, the same demand for silver from that part of the world that there was in the time of the American War. There are many reasons for that opinion. In the meantime there is a surplus stock of silver, which will be not one whit the less a burden that it would be a shifting burden, nor one degree less of a superfluity, though it were lost sight of in the ocean of the world's current money. The part that silver will have to play in the future appears to be that of a token currency, and legal tender only for limited amounts.

CHAPTER X.

Test question: the true laws of Prices—Distinction between Value and Price—Equality between total commodities produced and total purchasing power—Tendency of Prices to find a Level—True cause of general advance in Prices lies in accumulation of Savings—Difference between progressive and unprogressive countries.

WE now come to consider the test question of our whole subject, namely, What are the true laws of prices, and especially of continuously advancing prices? We have endeavoured to show, from various points of view, that the mere supply of money in any form, or in all forms, has nothing to do with the regulation of price; that money is simply a ticket to be used in exchanging commodities; that it is only for retail transactions, or in a most trifling degree for business transfers, that metal tickets are used at all; that the materials of which these tickets are made are not always bought and sold in an open market, under competition of supply and demand, or controlled by cost of production; and now we are called on to show, seeing that the ticket does not make the price, but only conveys it, what is the true regulator, and especially how it is that prices seem to be always advancing from century to century simultaneously with the increase in the supply of the monetary metals, if that supply be not the cause of the advance.

Let us begin by a preliminary remark regarding the distinction commonly drawn between value and price, a distinction which we find to be neither essential nor well grounded.

Writers on Political Economy say that the value is the personal feeling with which one regards the commodity which he would procure or part with; consequently, that one article may be worth more or less than another, or that a certain measure of the one corresponds to a certain different measure of the other, and thus value is a mere matter of comparison among different commodities; so that, though the value of one may be increased or that of another diminished as compared with something else, we cannot speak of them all as being diminished or increased at the same time. They proceed, however, to say that, as money is the article for which they are all usually exchanged, any variation in value is measured by it, and called a change in price, the money—which in their sense is either coin or notes convertible into coin—being for the time regarded as constant, and forming a measure of value. Thus price is said to be the value of commodities estimated in money, and we may speak of a general increase or abatement in prices, though we may not do so of values.

The first confusing element in this idea is as to definition of money. We find, for example, that the price of silver is modified and changed from day to day, and are thus left to suppose that bullion is an ordinary commodity, while the constant element—the measure of value—lies in coin. This makes a

great discrepancy between coin and bullion, which is never adjusted or bridged over.

But, next, we are confused by their statement that there is no constant value even in coin, though it is their only measure of value: only we may not speak of the varying price of coin as we may of bullion; we must say that money has risen or fallen in value as estimated in the whole range of commodities. When we think of price, we are to fix attention on coin, and regard other things as variables; then we turn round and fix our attention on the range of commodities, and treat the money as a variable. But this is in reality a mere effort of the imagination; such a process does not, and could not, go on in actual life. To be constantly pricing commodities by a fluctuating standard would be as difficult as progressing by a series of somersaults. Besides, the bulk of commodities at no time forms a constant element by which we can definitely trace the variations of any one commodity such as silver or gold, as their mutual fluctuations can only be approximately averaged; and indeed it is absurd to speak of the variations in a standard. We may, by a figure of speech, say that gold has risen when the average prices of certain commodities have fallen, but it is just as appropriate to say that the quay wall has risen when the tide has ebbed away.

It is certainly true that value is a comparative thing, and so is height, or length, or breadth; but there is a fixed scale applied to them all, by which the comparison can be stated. It may be observed, however, that we can only apply a mental scale to

value, while we apply a material scale to the others. The mode of estimating value has already been sufficiently explained. It is not effected by comparison of heterogeneous things, such as silver and sugar, as if we were in a state of barter, nor by reference to the amount of money in any shape or form which we may happen to have in our possession at the moment, but by comparison of one article with some similar article of which the value has already been ascertained; and as the same scale which is applied to one set of articles is used likewise for others, we thus obtain a common scale of valuation. The basis of comparison in each kind of article is carried in the mind, and is expressed in the ordinary language of money of account; that expression is the price, and the money—the ticket—the cheque conveys it. Thus value is the mental idea, price is its expression, and money its embodiment.

We can therefore speak with perfect consistency of a general rise or fall in values and prices; the constant element resting simply in the previous transactions, as expressed in the common scale of valuation, and not in gold or silver, or any other commodity. Gold itself may advance along with other articles—as it did in America during the late war—and, like them, be rated at an increased price.

Returning to the main subject on hand, we observe that the value of ordinary commodities depends for the time being upon the relationship of supply and demand, and that price is the point of adjustment between them. The method of adjustment has already been discussed under that head, and we have traced

out various aspects of the case. We found that demand needs to be effectual, and accompanied by the power of giving an exchange. The classification of society, according to this power, shapes it into an imaginary pyramid, with the millionaires at the top. Supply being a matter of numbers or extent, price serves to discover the particular grade of society wherein lies an effectual demand of corresponding numbers and extent. If supply be in excess at one range, a modification of price makes that supply fit into a lower and wider range. Again, if supply be deficient, competing buyers advance the price, as if there were an auction, and lift it up to a higher and narrower grade.

We have also seen that the normal limit to the range of prices—that which controls it in the long run—is the expense of production, or general cost of the various co-efficients employed. The modifications of prices, which are continually necessary in order to test the market and clear off production, are temporary movements, as there cannot be a great and continuous divergence between original cost and selling price (the former controls the latter in value, just as the latter controls the former in quantity); and the permanent tendency is to adjust the price which the consumer pays to the added-up expenses of the producer.

To assist us further in comprehending the movements now under consideration, let us again revert to our description of society, as consisting of one-articled producers and many-articled consumers. The nation is always to be regarded as a commune, in which

every individual throws his share into the general contribution, gets it valued by the higgling of the market, and with his ticket of valuation takes out of the general contribution such various articles as he wants.

Observe, first, that the value of the whole contributions added together makes up the total means or purchasing power, and the entire supply gives the sum of the total demand. Consequently, any advance in the price of one or more leading commodities adds to the total purchasing power, while any reduction diminishes it. Thus any increased demands and consequent expenditure of the community make an increase of income to individuals.

Observe, next, that if an average could be struck of all the prices, it would simply show the general level at which commodities interchange, and there would be no real difference in the wealth of the community, whether that general level were twice as high or twice as low. The most notable result would be, that rather more or rather less currency would be required to do the portion of business that cannot conveniently be put into the form of bank money.

Observe, again, that if any advance or reduction takes place in the prices of such important articles as grain, iron, or cotton, the advance goes first into the capitalist's pocket in masses of wealth, which are in large proportion saved and added to capital. But by degrees the surplus in price gets divided out among the various co-efficients of production, and especially falls into the hands of the labouring class. By them it is only received in driblets, and chiefly spent in

the consumption of their peculiar comforts and luxuries. Thus an advance in the price of iron, cotton goods, or woollen cloth, will first increase capital and the demand for machinery, then it will increase the demand for eggs, butter, sugar, butcher meat, and alcoholic liquors. The circle spreads, and all movements in price tend to equalise themselves over commodities, after a certain line of connection, which depends on the class that first receives the benefit.

This line of connection is well defined, and the increased income from any special article produced tends to spread itself, and give an increased income to the producers of other special articles, whereby a higher level of values, of prices, and of incomes becomes established all round. Of course it is only nominal incomes that are here referred to; an increase of real incomes is obtainable only from greater productiveness.

We now see clearly how purchasing power in individual cases is dependent on the valuation of the individual's contributions, and that the total purchasing power is the total of commodities, without any reference whatever to money, except as a supply of tickets to promote the exchange.

We are also enabled to trace how, in certain developments of national progress, prices may continue persistently to advance, and to maintain their advance by force of circumstances. This brings up the question of the great rise in the value of nearly all articles since our present monetary system was established by William the Conqueror. Common

opinion has it that that advance was first set in motion by the reduction in weight of the coins, which are supposed to have been always the measure, as they certainly were the expression of value; also that this advance was further promoted, after the coins ceased to be reduced, by the greater abundance of silver and afterwards of gold from the discovery of the American mines. Not only, however, does a careful examination show that prices advanced in separate lines and from other causes, but that the facts of reduced coins and discoveries of metal were only partially coincident with the additional fact of advanced prices, and that there was no essential connection between them.

The true source of continuous and permanent advance in prices, is to be found in the gradual increase of wealth annually produced by the nation, in those conditions of society that are regarded as characteristic of national progress, and, above all, in the steady increase of savings devoted to the purposes of capital. These circumstances do not include the consideration of exceptional cases in former times, when excessive reductions in the coinage may—as in the case of France—have affected prices through intercourse with other nations. No such circumstances appear to have affected permanently the history of prices in England. Our view of the subject as now given may be stated, for the sake of definiteness, in the following generalised expressions:—

First. An advance in prices is not in itself an increase of wealth, but is only a redistribution of it;

those who produce the commodities which have advanced being the gainers, and those who use them the losers.

Second. An increase of wealth comes to nations, as to individuals, only from increased productiveness or from savings.

Third. An increase of wealth arising from greater general productiveness does not advance prices if the supply be accurately adjusted to demand, and an increased expenditure accompany the increase of means. The tendency of increased productiveness is usually towards reduction of prices.

Fourth. An increase of wealth arising from mere accumulation of the additional commodities produced does not affect prices; but we have seen that any such accumulation, unless put into the form of capital, is necessarily small and unimportant.

Fifth. The increase of wealth arising from simultaneous increase in productiveness, and in savings devoted to capital, is the great source of all permanent advance in prices, and this influence is intensified in its effects by the difficulty of increasing some forms of employment for capital with sufficient rapidity. That difficulty has been specially felt in England, as regards the supply of human labour, and of land on which Nature's energies could be developed. The increasing demand for these co-efficients, which could not be multiplied like Nature's motive forces, or like capital in its fixed and circulating forms, maintained a continuous advance in their value; and as we know prices have always a spreading or levelling tendency, the increased purchasing power,

which landowners and labourers steadily acquired, spread itself over all articles which they chiefly purchase.

The circumstance of increased productiveness and savings being simultaneous, gives the peculiar result that demand can be concentrated on any special article or class of articles without withdrawing any purchasing power from other commodities. Thus the building and iron trades, which are chiefly connected with the embodiment of capital, may receive a constantly increasing stimulus, and yet the demand for ordinary articles of consumption be in no respect curtailed.

Capital having been freely invested in machinery, means of conveyance, stock of goods, and other appropriate forms, there arises a competition between it and the other active co-efficients—namely, labour and Nature's supplies. If the growth of capital be more rapid than that of population, the price of labour tends to advance; so, also, if the agencies which Nature affords are strictly limited and monopolised, their prices rise. This is simply in accordance with the usual law of supply and demand; but whether the land which contains the agencies of Nature be monopolised or not, if capital do not increase more rapidly than population, there is no progress made by such a country; and if it were isolated, so that its products should remain unaffected by the demands of other nations, there would be no advance in its prices either for labour or for commodities. Such appears to have been the condition of Japan till the revolution in its government a

few years ago, and such apparently would be the state of China also, if it could only shake itself free from those foreigners who insist on maintaining a commercial intercourse with its inhabitants. But England has had a very different history. During many generations, her people have shown a strong disposition to save wealth and increase capital. They have been industrious, enterprising, and eager to trade; their accumulated savings have not been hoarded up as in Eastern countries, but always readily put into "ventures." There has been a steady tendency, with only occasional lapses, for capital to outrun population, and to press on the limited supply of labour; while the increased productiveness of its application has advanced the real incomes of the people, concurrently with the advanced nominal incomes arising from the upward movement of prices. Thus savings have increased the power to save, and the results have been shared to a very large degree by the working classes, on account of their services having been always in demand. England has been successful also in adapting her monetary facilities to the growth of her trade, and when that began to be too great for a mere metal currency, she adopted first a paper currency, and then a system of bank money, which is found capable of indefinite extension. For many years her original metallic currency has been relegated to the lowest stratum of business; but with the new and more elastic system, capital and trade have increased by leaps and bounds, prices continue to rise by a healthy process, and solid wealth is yet

more healthily growing, while gold and silver are, for her purposes, sinking into insignificance.

Thus we have glanced at some of the general laws of prices in their ultimate bearings, noting specially their adjustment of supply and demand, their tendency to spread out in an equal ratio, and the causes that produce in them a general and continuous movement upwards, by advancing the value of certain co-efficients, and thereby increasing cost to the producer.

These laws are applicable to all forms of wealth which are left free to come under the influence of competition, finding their own level of supply from the expenses of production, and the corresponding range of demand in certain classes of society. A fuller statement of their influences in some respects has been given in the first part of this work, in discussing the nature of supply and demand; but we must now turn to another branch of the subject.

CHAPTER XI.

Variety of meanings attached to the Price of Money—Error of confusing Money for Loan with Money in Specie—Double Reserves of the Bank of England—Errors regarding supply of Money—Distinction between supply of Currency and of Loanable Capital—Article in *Saturday Review* considered—Erroneous ideas sanctioned by Mill and other Economists—Illustration taken from India.

WE have frequently referred to the precious metals as having been under different influences from those of free competition and production. They have been provided with special markets where prices were regulated by special laws, and although the limits of these prices discouraged production at any excess of cost beyond the standard value, since the time that slavery in the mines was abolished, yet no *cheapening* of production could affect the ultimate value of the bullion or the coin. When gold was being picked up in such abundance at Melbourne that no other branch of business could retain its labourers, the market price in London remained unchanged at £3 17s. 9d. *worth of goods* for an ounce of metal.

Let us now consider for a little, with the light we can derive from principles already laid down, some of the various meanings that are attached to the phrase, "the price of money."

Were we to use that phrase in a strict sense, and apply it to any or all individual coins and currency,

then we could only speak of the fluctuations in their price when referring to money that has diverged from the common scale, and its expression in money of account; such as the payment that is made for bills on distant places, or the premium that would be given at present for gold coins in India. It is in that sense that we may speak of the price of Mexican dollars at present, or the price of a guinea from 1663 to 1717, when it fluctuated between twenty and thirty shillings.

But such a use of the term would be too precise and exact in our present state of education. Common usage has adopted a different meaning, and the price of money is the expression usually applied to the rate of discounts; or, in other words, to the interest paid on loans of capital for short periods. This is, strictly speaking, the *hire* of money, and is the same as if we should say the *price of a horse* for a day's hunting, meaning thereby the cost of its temporary use.

But such freedom in the use of the term, being a matter of common understanding, and not at present generally misleading, is harmless, compared with the inaccuracy and confusion with which writers of city articles treat of money for lending and money in specie. They do not seem to have yet learnt any convenient phrase by which to distinguish them, except in a roundabout way, and when they mean to be very precise. They have no hesitation in announcing that money is running low, getting scarce, and that discounts are sure to advance, when they simply note a diminution of gold at the Issue Department, without thinking for the moment of what millions of

loanable capital are ready for borrowers at a few days' notice.

It is of course necessary to point out such inaccuracy; but it is just to explain, at the same time, that the error has been fostered by tradition, and originated at a period when it was not so easy to perceive the true bearing of the case as it is now. The chief business of such writers is to record the supply and demand of money; money to be invested, and money to be lent. We shall devote our attention mainly to the latter division, and ascertain how the writers of city articles come to find their special point of view regarding it.

This class of money—perhaps we should say capital, but capital in its transfer has to be put into the form of money, therefore we retain the usual word—is placed with bill discounters and bankers on deposit, or left with them as balances ready to be called up; and that portion which they keep on hand and ready for use is called their reserve. A pressure for loans, owing to brisker trade, will naturally diminish reserve, or increase the hiring price by sharper demand; and slow trade, on the other hand, allows an accumulation of reserve, for which the bankers must seek employment by reducing their rate of discount, or by investment in Exchequer bills, and other suitable forms. The fluctuations in this rate are of considerable interest to merchants, but still more to investors; as an advance of two per cent. would readily induce many investors to send their money to the bill discounters, and thereby increase the available supply of loanable capital. It

is often a nice point to decide when the rate of discount should be raised or lowered, especially among country bankers; but as the Bank of England is the most important of these institutions, the action taken by it is adopted as a guide, and followed by common consent. Moreover, its accounts are published weekly, and thus the movements at the Bank of England are the central point of observation for those whose business it is to forecast the future price of money.

The action of the Bank of England is to a great extent on the same lines as that of any other non-issuing bank. Its reserve is held in notes and coin, and rises or falls with the briskness of trade and other commercial movements. We call the Bank of England a non-issuing bank, as the Issue Department, though in the same building and under the same directors, is in reality a separate institution, and entirely self-regulating, as already explained on page 188. It might as well be associated with any department of the Civil Service as with the Bank of England, so far as the banking business of the latter is concerned.

After the organisation of this department in 1844, the ordinary business of the bank was carried on in the usual way, by maintaining a suitable reserve for discount purposes. Nothing more was supposed to be necessary, as the self-regulating action of the Issue Department secured the convertibility of the notes, and presumably the yet more important object, that any exportation of gold must be taken from the money in circulation. The latter was the great

point sought to be gained by the new arrangement, and was the main purpose of the Bank Act. But, by painful experience, the Directors found that an exportation of gold, if it increased to any important extent, was drawn eventually from their banking resources, and not from the currency; and the drain on the reserve was liable to become more rapid than on the Issue Department, because the circulation, instead of supplying this money for exportation, rather needed an increase at such a time. Thus the Directors came to learn, that they must hold not only a regular reserve for their ordinary trade, like other banks, but an extraordinary reserve to meet the special demands of bullion exporters. Ordinary discount business increases when there are more rapid sales and improved home business; while the discounts for bullion exportation originate in foreign trade, and the pressure of an adverse exchange. The demand for home business increases or diminishes slowly, but the demand for foreign purposes sometimes comes with a rush; besides, the two movements are often quite independent of each other, and the one may be quiet while the other is excited. Thirty years ago, there was much less doing than there is now in the transfer of stocks and securities from country to country. Consequently, if a sudden or important turn of the exchanges happened to set in, there was no method of giving relief except by the shipment of bullion, so that the pressure was sharper than it would be at the present time: the securities now serve as a buffer to weaken the impact.

As a result of their experience, the Directors of

the Bank made it a rule to hold a very large reserve —a reserve that is enormous, and perhaps excessive —to meet these two separate demands; and though they did not at first consider it necessary for them to watch the course of exchange, they now declare that to be one of their guiding influences.

It is not to be supposed that all exportation of gold is obtained by discounting bills at the Bank of England, and turning the proceeds into coin. The exporters exhaust the small supplies of metal that may be lying in London first, then their balances or discounting facilities at the other banks, by which they are enabled to present notes at the Issue Department in exchange for bullion. And it is only when these means are exhausted that the central institution is called on to make up all deficiencies. Thus it comes to be known, by the activity at the Issue Department, and the shipments of gold, when bullion dealers' bills are likely to be brought forward, and the Directors are on their guard. Should such bills be freely presented for discount, the Directors have to protect their double reserve, to leave untouched that portion which is available for traders' bills, and to watch the drain on such other portion as may be available for exporters' use. In guarding this second portion, they may be obliged to raise their rate; and as no explanations are offered to the public, this movement is willingly followed by all the bankers in the country. There may be abundance of loanable capital available, although the rate is advancing perhaps with rapid strides; and this action of the Bank of England, based upon

exchanges, and accompanied by shipments of bullion, seems to business men the very mystery and secret of the money market. Hence the importance attached to the flow of gold—an importance that is out of all proportion to its real influence.

There may be free movements of gold out or in, without any turn of the exchanges; and there may be an adverse exchange, modified in a few days by the mere sale of securities. There may even be considerable exportation of the precious metals, under pressure of exchange, without in the slightest degree affecting the loanable funds that are waiting for borrowers, or the notes in circulation; but all discrimination is lost sight of in the exaggerated traditional idea that the supply of currency, which is lying unused in the bank cellars, controls and overrides the entire business, prices, loans, and discounts of the country. It is as if a shopkeeper were always estimating his monetary position by the amount of small change in his till at night, instead of by his bank-book and his stock.

It is impossible for us, in this generation, to comprehend the amount of heated debate and confusion of thought that filled men's minds on the currency question for forty years previous to the Bank Act settlement, and drove men to accept it as the only course that was fairly clear to their comprehension. The traditional notions that are still harped upon by writers of money articles are just the lees and dregs of the old controversies. Although various weak points in that settlement have become developed by experience, it would be a mistake to undervalue it,

or even to suppose that anything better could have been done at the time. It was a simple, straightforward, comprehensible measure, which educated the Directors in working it, and the public in watching it. Even the writers of city articles are less narrow now than they used to be, in their exposition of its operations and the movements of specie. But not only do they require to have their eyes opened somewhat wider on that subject; they also need to consider more fully the point at which the action of the Bank of England has hitherto been weakest, and requires strengthening. That point lies in the want of elasticity as to the issue of paper currency, at times when discredit spreads, discounts are curtailed, cash payments have to be increased in the absence of cheques, and circulation is interfered with by hoarding up notes in safes from fear of coming scarcity.

We have referred to the inaccuracies that prevail in common language when speaking of the price of money, but there is yet more fault to be found with the confusion that exists in reference to the supply of money. We need not again touch upon the mistaken association of ideas which connects it with the supply of bullion at the Issue Department. There are, however, two different senses in which the words may be used fairly enough, though so often confounded together as to be altogether misleading, and we must endeavour to distinguish them with some care and precision. The supply of money may refer either to currency or to loanable capital. Money in our sense of the term is the shadow and accompaniment of all business transactions, and is,

to a large extent, supplied as wanted; but as part of it is in the form of tickets or currency provided beforehand, and the remainder is in the form of memoranda made for the occasion, there is no reason why we should not speak of the supply—and its correlative, the demand—of money used as currency. We have already seen that there are certain fluctuations in that respect, at certain periods of the year, and in certain conditions of trade, and have remarked upon the extent to which one form of money can be made to take the place of another. Nevertheless, it is in the sense of loanable capital that the supply of money is most frequently referred to. We found that it is in that sense the price of money is commonly spoken of, and thus, by referring them to loanable capital, the price, the supply, and the demand are all coherently attached to one another.

The supply of currency and of loanable capital have some things in common; for example, there is a certain quantity of each in use, and a certain quantity in reserve. Moreover, it is the one identical stock of money which forms the visible reserve of both. Occasionally, in speaking of these matters, one refers to the supply both in use and in reserve, as when we spoke of 180 millions as the estimated total supply of currency in the United Kingdom; at other times, the quantity in use is alone referred to, as when we estimated it at 120 millions, or, again, the reference may be made to the quantity in reserve, and available to meet the fluctuations of demand.

In this country the great stock of money in reserve is held by the Bank of England. The other banks

hold as little cash on hand as possible, consistently with doing their ordinary business in safety and freedom. But the bank of the nation has a special position, by which it is enabled, and is indeed morally compelled, to maintain a much larger reserve than ordinary business requires; and it is to that amount chiefly that we must direct our attention.

There are three different purposes for which the reserve of the Bank of England is available. The first is for supplying occasional additions to the currency, such as the trifling increase necessary in autumn, or the more important expansion required by a check in business movements. For either or both of these the present reserve is much more than has usually, or perhaps ever, been wanted. The second is for supplying the means of demanding gold at the Issue Department, in order to export it abroad. This might be called an expansion of the international currency. We have described it as sometimes a very important and rapid movement, which, however, has of late years been greatly modified by the transfer of stocks and securities among the leading commercial nations. For this purpose also, taking it alone, the existing reserve is more than ample. The third is for supplying additional loanable capital in discounts when the stock outside has been exhausted by increased demand, or when the bank rate is lower than that prevailing in Lombard Street. At this point we have to draw special attention to the fact that, though the visible stock of currency is the real stock, the visible stock of loanable capital is a mere fraction of the quantity waiting for employment,

and hidden away by other banks and bill discounters in realisable securities, money at call or on short loan, and in every way that admits of claims being rapidly encashed. As an immense amount of loanable capital can be moved about and transferred by the rapid and repeated use of a small amount of currency, these concealed stocks of the former can be drawn upon to an enormous extent, without much perceptible movement of the latter, if sufficient time be allowed for the process. Thus the securities and outlying claims can be transferred in rapid succession to those who want discounts or other similar loans; and after passing, it may be, through the form of currency for a moment, sink again into the cross entries of ordinary bank business. Accordingly, we perceive that the reserve at the Bank of England, which is ample for the first two purposes, and is the real stock on hand apart from the narrow margin on which the other banks operate, is, as regards the third, a mere fragmentary reserve, especially as only so much of it can be devoted to discounts as may be spared after providing for the other purposes.

It is well worth observing that the circumstances connected with the supply of currency and of loanable capital in America are very different from what they are in England. In the former country, the extent of agricultural business in outlying districts, and the want of bank facilities in a thinly-peopled nation, make it necessary that the periodical movements of currency from the financial centres to the remote provinces should be much greater in amount, and more fluctuating, than in our compact and com-

mercially organised country. Moreover, there is no central institution there, like the Bank of England, which is able to maintain a large amount of profitless reserve. Every bank with them works on as narrow a margin, and as closely with a view to profit, as our private and joint-stock banks here. Consequently, it is not to be wondered at that more anxiety is often shown to get notes than to get loans, and that in America the reserve of the banks is more closely watched, with a view to its sufficiency for meeting the currency demands of the banks in the Western States, than for discounting bills in New York or Philadelphia. It is unnecessary to add that the case is exactly the reverse in England, where the demand for currency fluctuates so little as to be comparatively unimportant.

Such is the distinction to be made between the supply of money as currency and as loanable capital. That it is an important distinction, is made yet more evident by an examination of such returns as those issued by the publishers of *The Economist*, in their half-yearly reports of the joint-stock banks of the United Kingdom. In their statement, dated 15th May, 1880, we find particulars given from which we are able to extract the following items. The paid-up capital and reserved profits of these banks—excluding the Bank of England, all private banks, all foreign and colonial banks, and such joint-stock banks as did not publish reports—are over 62 millions sterling, and their deposits 300 millions. Their cash on hand and at call was over 67 millions, their investments 58 millions, and their advances on loan

241 millions. At the time that statement was drawn up, the capital and reserved profits of the Bank of England amounted to over 17 millions, its deposits 33 millions, its investments in Government securities 16 millions, its advances 19 millions, and its reserve, or balance on hand, 16 millions, of which about a twelfth part was in coin. The whole of the notes in circulation at the same period, including the issues of those banks which did not publish other returns, was slightly over 40 millions.

But, notwithstanding the great and important distinction between loanable capital and currency—which are, unfortunately, alike described as money—it is astonishing to find how liable it is to be overlooked, in spite of its self-evident character. We have a striking illustration of this fact in an article on "The Money Market," published in the *Saturday Review* of 8th May, 1880. Without quoting the whole article, we submit the following passage as a fair extract, and containing in itself a sufficiently explicit statement, which no part of the context appears to modify or alter. The words which specially deserve attention are here printed in italics:—

"The periods at which this 'hardening of rates' takes place are May and November. It is, however, most pronounced in the latter month. The harvests have then been got in, and farmers are anxious to sell the proceeds as soon as possible. They would naturally refuse to take cheques from buyers, many of whom they have probably never seen before, and know nothing of. And even if they were willing to trust purchasers, there are not a few of them who

keep no banking account. Buyers, therefore, have to provide themselves for the nonce with coin or notes in unusual quantities, and, in doing so, they diminish the stock of cash at the great trade centres. The transportation of the purchases thus made gives employment to a further amount of currency. As this kind of thing is going on at nearly the same time in all civilised countries, there is a less amount than ordinary of *loanable capital available for merchants and speculators, and rates inevitably tend upwards.*" The description there given is admirable, and true to the life, till we come to the word loanable, and then it seems as if the remainder of the sentence does not belong to it, but has got transferred from some passage wherein capital was discussed, and not currency.

We may well ask, is it possible that writers who are constantly dealing with these subjects should be so inaccurate and loose-jointed in their ideas as to mix up, without a shade of discrimination, the demand for a slight increase of currency—usually less than a million over the United Kingdom—with a demand for loanable capital; and not only so, but to prophesy, in connection with such a movement, an advance in the "rates"—the hiring price—of the capital which remains virtually untouched? Might it not be practicable, when the market is easy in Lombard Street, for the merchants and speculators to get as much of the "loanable capital available for" them, at a week's notice, as the entire reserve at the Bank of England, without much perceptible hardening of the rates? The joint-stock banks of the

United Kingdom command only a portion of the means available for merchants and speculators, and yet their advances amount to hundreds of millions. If, then, we refer to a million or two being taken from the visible reserve of such an immense bulk of loanable capital, and ascribe to that trifling demand an increase of price over the whole, it is as if one should say that house rents will inevitably tend upward when one or two buildings in a good large town have been turned into hotels or police barracks.

The returns of the Bank of England are, in truth, not the first, but one of the last means of obtaining information as to the probable tendency of discount rates. That institution, with its floating marginal reserve, depending always more or less on the accident of gold shipments, and requiring to be kept available for various purposes, is far from being a ready index to the movements of the money market. The important fluctuations in that department of business originate rather with the bill discounters and stock exchange brokers, whose returns are not laid open to the eyes of the public.

Enough has now been said regarding the distinction between currency and capital. There remains to be pointed out the much more serious and fundamental misconception concerning the supply of money, which regards it as similar in its nature and action to the supply of commodities. There is a sense in which some similarity may be traced, the sense according to which loanable capital finds an adjustment between the supply and the demand,

by means of the hiring price, the rate of interest. But the misconception to which we refer transfers the idea of demand from those who want money in the form of loanable capital, to those who want money in the form of cash for their goods. It is a most deplorable confusion of thought, originating probably in a mixed use of the word money, and combined therewith a notion that money is itself a commodity drawn from the mines, and depending for its value on cost of production and other such influences. Following out this idea, it seems to be thought that, as all surplus or deficiency of ordinary commodities is brought to an equality with the effective demand by an alteration in the price, so the fluctuating supply of money must be adjusted to the goods offered for sale, by giving more or less of it for the articles. Any extra quantity of money must be got rid of like an extra stock of hats, or hay, or horses; while, if it be scarce, that means that there is an extra quantity of commodities to be got rid of, for which less money must be taken. This is supposed to be the great law of prices, and is adopted by nearly every Economist of the present day. Let us read what J. S. Mill says in his *Principles of Political Economy*, Book III., chapter viii., section 2.

"As the whole of the goods in the market compose the demand for money, so the whole of the money constitutes the demand for the goods. The money and the goods are seeking each other for the purpose of being exchanged. They are reciprocally supply and demand to one another. It is indifferent

whether, in characterising the phenomena, we speak of the supply and demand of the goods or the supply and demand of the money; they are equivalent expressions."

With all reverence and respect be it said, that there does not seem to us anything more grievously mistaken or short-sighted in the exploded mercantile theory than in these ideas. Had money been something in the air, or a transcendental conception in metaphysics, its nature and action could not have been more completely misunderstood and illusively described. And yet it is from the principle thus laid down that such jealousy has existed among theoretical men as to the extension of note issues—that so much fruitless discussion has taken place regarding the effect of the enormous importations of gold during the last thirty years—that so much doubt exists as to the form of the money which thus raises or lowers prices by its expansion or contraction—that such erroneous ideas have prevailed regarding the effect of the silver importations upon prices and exports in India. In fact, this notion that the demand for money is simply the greater or lesser supply of goods, and the demand for goods is the greater or lesser supply of money, has contaminated the whole theory of Political Economy, and affected injuriously much of the legislative action which has been based upon its principles.

The superficial fact is evident enough, that goods and money are always on an equality; but it is not the equality that price brings about between watches and purchasers, it is the equality between watches

and watch-glasses, the one being simply an attendant on the other.

The true nature of the case will never be understood till people see that money is simply tickets provided beforehand, and memoranda produced for the occasion, which facilitate the transfer of commodities. So long as the tickets pass current, whether they be in metal or in paper, they are convertible into commodities, and serve their true purpose as a *medium*—not a *principal*—in exchange. When a price is fixed, they embody it, and are held in hand in place of the commodity parted with, till they again embody the price of the next commodity that is procured. If the tickets or memoranda are not held in hand, they are placed with a banker, to be held by him instead.

What is there in common between the superabundant and cheapened crops a farmer may have in a plentiful season, and the superabundant coins he may have received in return for these crops? Are the coins to be parted with more cheaply also because of this abundance? When did we ever learn that rich people give double prices for articles as compared with poor people? At what point does it come in, through any course of negotiation, that a buyer feels compelled to give a higher price in order to get rid of surplus funds? That is what must be done with surplus commodities; but the difference is that money is as good to keep as to give away, so long as it is a current money at all. We have already seen what simple requisites are necessary to keep currency in motion, and currency in motion is an

article that is always finding a market without fluctuation. Its value is a fixture.

In discussing the question still further, as to whether a greater or less supply of currency makes prices higher or lower, let us consider for a moment the case of India, to which so much reference has already been made. If ever coined money were in superabundance anywhere, it is in that country. Not only has it been the great absorbent of silver for hundreds of years, but it has had that metal forced into its currency of late in excess of all requirements, and without the possibility of getting freely rid of it. Yet more; the bullion is worth less than the coin, the ticket passes for more than the worth of the metal of which it is made, and yet there is no way by which these depreciating influences can be brought to bear on the prices of retailed commodities. Without stopping to refer to the recognised fact that general prices have tended downwards and not upwards since the great fall in silver, a fact which is recognised even by those who are perplexed by it, we press the point that there is no way by which an excess of coin in proportion to the population, or a moderate fall in the value of bullion, could affect prices in retail transactions. There is nothing in the excess that would induce people to throw it away; and the owner of one hundred rupees, who formerly possessed only fifty, is not going to press his money on the seller of rice or oil one-tenth of a percentage more because silver continues to flow into the mint. He can pay all his taxes, all public charges, all fares and rates, on the same terms

as before. In a thousand different forms a rupee's worth is beyond the reach of such external influences, being protected by custom, competition, remoteness, or other causes; and while the estimate of a rupee's worth remains unaffected by such influences, so does the rupee. While the coin is thus current, it is as good to keep as to give away.

Even when we meet the case of a merchant who has received large quantities of rupee payments, and who—perhaps as a general importer—would gladly ship the coin in foreign payments, we find that the loss he would suffer by treating the coin as bullion would be only similar to the extra price he has to pay either by sending remittances, or by being drawn upon, under adverse rates of exchange.

Returning to the doctrine laid down by J. S. Mill in the passage quoted, we ask, as a matter of fact, what is the amount of money and what is the amount of goods? Is there more money in the English market acting at any moment as a demand for goods than the 120 or 180 millions of currency? Is the cheque or the bill for £1000, which is written out after a purchase has been arranged, to be called money in the market acting as a demand for goods? That is impossible, as it did not exist except as property or commodities owned by the purchaser at the moment he was seeking to buy. Thus we are brought face to face with the fact that commodities form the demand for commodities. Where then is the sphere of action within which the producible money can create demand? It cannot in any case extend beyond the retail transactions and other

business we have described, on page 169, in estimating the yearly turn-over of the nation. But if it only acts within that limited range, what is to influence prices in the immensely wider range beyond it? To that question we are bound to say that the commonly accepted theory gives no satisfactory reply.

CHAPTER XII.

Temporary fluctuations in Prices of most interest to Traders—The successive stages of Production—Fluctuating Prices are Speculative Prices—Partial Glut the oscillation from temporary Demand—Usual explanations of a general glut unsatisfactory—The influence of Investments in producing general Gluts—Peculiarities in the valuation of Investments—Process of recovery from general Gluts.

LET us now turn aside for a moment to examine the influences that affect prices in their temporary fluctuations. We know that the added-up expenses of production, or, as it is usually called, the cost price, is the ultimate regulator of the selling price, and itself depends upon the value of the co-efficients employed, which, in turn, is controlled by the savings and productiveness of the nation, but for the present we give attention rather to the immediate influences which override these ultimate powers. This is the question that most closely affects the ordinary merchant, as it is by such temporary movements that his gains or losses are made.

The best method of getting an insight into these fluctuations is by examining once more the effects of divided labour. In this instance we have to direct our attention rather to the successive processes, than to those which are simultaneous. The real cause of rapid rise and fall in prices, is to be found in the length of time and number of stages that have to be

passed through in preparing articles for consumption, and the uncertainty that exists during these stages, as to whether there will be too little or too much of the finished article, when it comes at last upon the market. This uncertainty produces speculative movements at every point of progress, and fluctuating prices are simply speculative prices. Were there no uncertainty, no guess work, no speculative anticipations, and if everything came into the market in such quantity and at such cost as exactly fitted the demand, there would be no fluctuations. Or, again, if commodities in the finished state could be brought forward by short and single processes from their primal origin, the supply could be exactly fitted to the demand, and in that case also there would neither be room for speculation nor fluctuation.

Under the existing system, inducements to increase production may originate at any step in the process; they may even arise, expend themselves, and disappear at an intermediate stage, distant alike from the preparatory movements and the final experience of the consumer's wants. We have already seen, in speaking of the cotton trade, how many successive movements there were in passing the materials from hand to hand, from merchant to merchant, and from warehouse to warehouse, before the produce of Louisiana became the wearing apparel of the Lancashire operative or the Hindoo peasant. And it is the same in all important trades; each is divided into a series of completed stages, so separated by distance of time, and by the hard lines of commercial organisation, which effectually separate the traders at

one stage from those at another, that it becomes impossible for any merchant to see more than his own immediate future.

We can understand in this manner how there should be a constant oscillation between speculative demand and partial glut, and the oscillation between these two creates a fluctuation of prices, which carries with it a corresponding variation in the purchasing power of the community. But while an increase of demand raises selling prices, increases profits, and by degrees advances wages and raw material; the other swing of the pendulum—though it as promptly lowers prices and diminishes profits—does not so quickly depress wages or general cost of production. In a progressive state of society, with plenty of capital and a scarcity of labour, it is always easier to get wages up than to get them down. This is partly caused by the fact that workmen do not abate their pretensions so quickly when their services are not in demand, as a merchant does when he finds himself possessed of unsaleable stock. The workman will rather go idle for a time than take lower wages, while the merchant, having less of a personal feeling in the matter, accepts the situation at once, and makes his price correspond to the market.

The most important result of this apparently trifling circumstance is, that prices fit themselves far more rapidly to a rising market than to a falling one. We shall immediately see how this tends to prolong gluts and periods of dull trade. At present we simply note that cost price—that is to say, the added-up expenses of production—is so largely made

up of wages and other unyielding elements, that it forms a stiff barrier to all downward movements, while there is no corresponding obstacle in the way of upward progress.

Partial glut is of course the antithesis of increased demand; occurring sometimes in one article, sometimes in another, it is the everyday experience of the mercantile world. Its origin is the constant pressure of superabundant capital, seeking outlets for activity, and creating at some point or other that excess of supply which is only scattered by a reduction of price, and a diversion of the producing power into other channels.

But occasionally, as during the five years from 1874 to 1879, there comes such a persistent glut and over-supply apparently in all commodities, that no adjustment seems possible, the ordinary explanation of such experiences is felt to be insufficient, and perplexed expositors grope about in mystification, seeking to account for the decay and exhaustion of the nation.

The nature of such general gluts has been much debated and misunderstood, like many other things in Political Economy. They have been regarded as a proof that there may be too great a supply of commodities in general, and that the producing powers of the nation require to have a limit imposed on them. The erroneous nature of this idea has been pointed out by all recent writers, as it implies that there may be too much wealth, too many things that are desirable and exchangeable in the possession of the people, which is an absurdity. On the other

hand, it has been maintained that there can be no such thing as a general glut; that we are mistaken when we suppose that such a thing exists, being misled by appearances; and that a general glut is, after all, nothing more than a partial glut slightly aggravated, and requiring only a fresh adjustment of supply in some articles that have been over-produced.

We regard this explanation as insufficient, and not covering all the facts, nor giving a satisfactory account of the extended and universal experience of the last few years. It seems rather that a great shrinkage and general collapse of purchasing power is the origin of such movements, and that a consequent readjustment—not of supply, but of the level of prices in general—has to be brought about, which is found to be a very tedious and difficult process.

Under the influence of a general collapse of purchasing power, there is an absolute glut of all commodities, not in the sense that there are too many of them, but that their prices are all on too high a level. This is the reverse of the action caused by a great accumulation of savings, which, by expanding the purchasing power, raises the level of prices; and it comes from an exactly opposite source —namely, the annihilation of savings.

We have already seen that the chief cause of advanced cost prices is a more rapid increase of capital than of labour; that movements of prices tend to spread in far-reaching waves, and maintain a certain level; that a given range of cost prices is thus established, which rises or falls only by wide extensive movements, chiefly in connection with the

increase or reduction of wages; moveover, that while selling prices oscillate freely across the line of cost prices, that line moves upward with readiness, but goes downward with delay and difficulty.

When we apply these principles to the recent history of commerce, the development of gluts unfolds itself as a natural and almost necessary result. Great masses of savings are turned into commodities that embody fixed capital; the demand for these advances cost of production all along the line; increased activity of trade, and the natural advance of selling rates, swells up the value of all investments; the holders of the investments find their purchasing power increasing daily; everyone is sanguine—probably over-sanguine—and the level of all prices runs up to an extreme height; then a drop in the value of some investments checks the upward movement, a general shrinkage takes place, purchasing power evanishes, the movement of collapse gathers intensity, and probably creates a commercial panic; then by slow and painful steps the backward path is traced, till by degrees a suitable range of cost prices, in their various items of wages, raw material, rents, &c., has been once more established all round the circle, and the upward movement may commence again.

In the first part of this book, when speaking of the process of saving wealth, we referred in passing to some peculiarities in the connection between fixed capital on a large scale, and the sudden shrinkage of values and consequent disasters. There is certainly no department of our industrial activity that seems to

have exercised so much influence in over-stimulating production, creating enormous excess of supply, and necessitating fearful efforts to arrive at a readjustment, as the great building and constructive trades which embody fixed capital. Other departments have become more or less accurately defined in their scope, so that none of them runs so very wide of the ultimate demand as that which is embodied in investment schemes. But the value of these is disconnected from the cost of production almost at the moment production is completed, and immediately becomes associated with the percentage of profit which is obtained from their working. This percentage acts on the value of the investment like a lever power, by which the trifling change which may occur in itself becomes an enormous change in the selling price of the investment. The gradations in the value of the property are always about twenty-fold greater than the gradations of change in the profits, which are taken as the basis of valuation.

Moreover, the great amount of savings that may be thrown into capital, after a year or two of good trade in a country like England, does not, in seeking employment, act directly on the undertakings that have to be set in motion, in order to absorb them. These accumulated savings rather create a general stimulus, a nervous activity, which finds its outflow in the schemes of adventurers and company promoters. Such schemes are often wide of the mark, and of a nature well fitted to bring about a failure at the moment of trial. From the want of direct contact between those who demand investments, and those

who plan and create them, the supply is frequently at a great divergence from what is required, and far in excess of the true effectual demand. Again, the valuation and purchase of such things is not brought to the same test as that which we apply to articles of use and comfort. The purchaser in the latter case knows exactly the service to be rendered to him by the commodity, and decides how much he can afford to give in exchange; but in the matter of investments there is a gregarious phase of human nature brought strongly into play. As there is no visible article to be seen and estimated, the imagination finds active employment, and sympathy gets more to do than calculation. People's ideas rise or fall in the excitement of contact with many other minds on the same subject, and the valuation of investments is the most fluctuating element in all commerce.

Thus it comes that the people who regard themselves as worth 100 millions of invested capital on the 1st of January, may find themselves worth only the half of it on the 1st of July. The property may be all there, not an article awanting in the widespread stock of commodities; but its estimated value has so shrunk as to annihilate, for the time being, 50 millions of exchangeable wealth. That is the primary loss of purchasing power, which unsettles all prices, disturbs trade in every department, and enforces a more or less uniform reduction in the rates at which all goods are exchanged.

Such was the history of the general glut which began in America in 1873; and it was in America, though not there alone, that the great extension had

taken place in sinking fixed capital. The collapse which began there extended by degrees to all other nations, and the process of recovery was more tedious than in any other similar case during this generation. The shrinkage was so much greater than usual, that it took a longer time before the new range of prices could be satisfactorily established, and it required more than one good harvest—which of itself always gives an increased purchasing power—to bring round a general freedom of action.

It is specially to be noted that, in a collapse of this kind, there is no absolute necessity for the diminished production of all articles of wealth. That diminished production is an inevitable result, but it is as a means to an end. If there were any method by which the new and accurate relationship of prices, which must eventuate from the changed circumstances of the community, could be decided on at once, and every individual, from the landlord and the capitalist, to the merchant and manufacturer, and even to the labourer and the farmer, persuaded to part with his commodities at this reduced rate, business might go on with scarcely a pause, and its activity need be little interfered with. But, at the moment of collapse, prices would require to be excessively low so as to induce a general trade, while the gradual process by which the same end is attained, by accustoming traders to the lower range of values, and after continuous pressure on the more sanguine holders of goods, prevents the fall reaching such a frightful depth as it would by prompter and more decisive means.

Thus we have surveyed the laws of prices and of gluts, pointing out especially those causes which are at work in producing continuous and more or less permanent advance in prices, and examining with some care the prevailing errors regarding the demand, the supply, and the price of money, together with the nature of those great depressions in trade which occasionally put back the dial hand of commerce.

Our task is now finished. In the First Part of the book we have sought to give a simple and brief explanation of the leading points in Political Economy, suitable for the reading of persons engaged in business, and in order to prepare the mind for a comprehension of that which was to follow. In the Second Part we have endeavoured, with as much care and accuracy as was possible under the circumstances, to state the actual and true relationship which exists between money and prices. The accepted theory on that point seemed to be so misleading, so fatally erroneous, so influential for evil, both in theoretic deductions and in legislative action, that any statement which would expose its inconsistencies, and do away with its perplexities, seemed an urgent necessity. To what extent this book may serve to fulfil these purposes, and to supply a more truthful and satisfactory theory, it is for the critics in the first place, and the public in the end, to decide.

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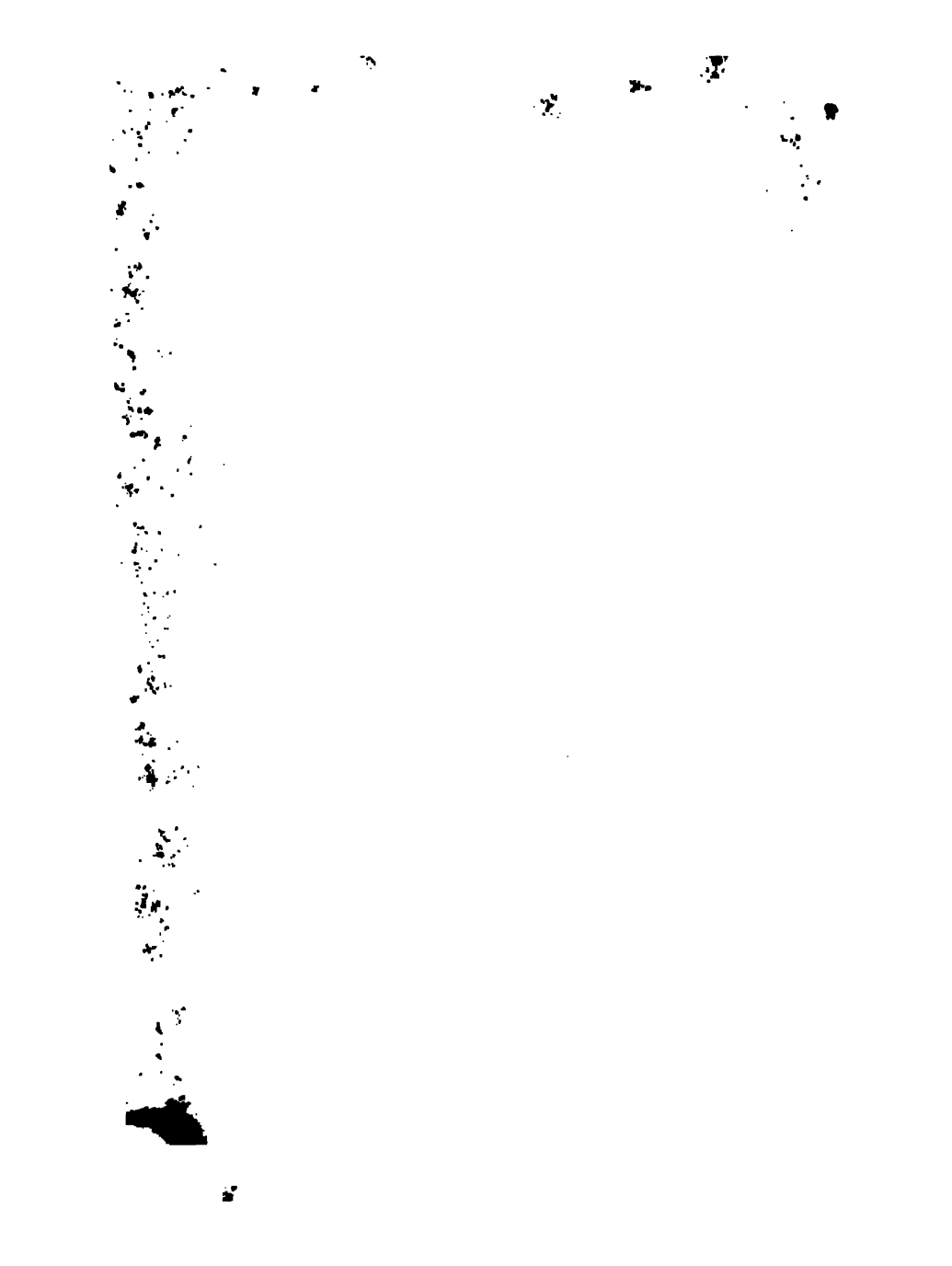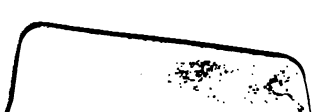
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